

NEW ISSUE

Ratings†

Fitch Moody's S&P

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. See "Tax Exemption" herein.

CITY OF BOSTON, MASSACHUSETTS
\$00,000,000*
GENERAL OBLIGATION BONDS
2006 SERIES A

Dated: January 15, 2006

Due: January 1, as shown below

Maturity	Principal Amount*	Interest Rate	Yield	CUSIP	Maturity	Principal Amount*	Interest Rate	Yield	CUSIP
2007					2017				
2008					2018				
2009					2019				
2010					2020				
2011					2021				
2012					2022				
2013					2023				
2014					2024				
2015					2025				
2016					2026				

(Accrued interest from January 15, 2006 to be added.)

The Bonds will be issued by means of a book entry system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company and its participants. Details of payment of the Bonds are set forth in this Official Statement and the Official Notice of Sale for the Bonds dated January __, 2006 (the "Official Notice of Sale"), attached hereto as Appendix F. Interest on the Bonds will be payable on July 1, 2006 and semiannually on each January 1 and July 1 thereafter until maturity or redemption prior to maturity. The Bonds will be subject to redemption as more fully described herein under "The Bonds—Redemption Prior to Maturity."

The Bonds will be issued for the purpose of funding various capital projects, as more fully described in Appendix C hereto. The Bonds will be valid general obligations of the City for the payment of the principal of and interest on which all taxable property in the City is subject to the levy of ad valorem taxes without limit as to rate or amount as more fully described herein under "Security for the Bonds."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds will be offered subject to prior sale pursuant to the Official Notice of Sale, and received by the Underwriters subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described herein. Public Financial Management, Inc., Boston, Massachusetts, serves as Financial Advisor to the City. _____ [City], [State], will act as paying agent for the Bonds.

January __, 2006

† See "Credit Ratings."

* Preliminary, subject to change as described in the Official Notice of Sale.

No dealer, broker, salesperson or other person has been authorized by the City of Boston or the underwriters of the Bonds to give any information or to make any representations in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained herein has been furnished by the City and certain information has been obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the underwriters of the Bonds or, as to information from other sources, of the City. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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New Hampshire Residents:

In making an investment decision investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

OFFICIAL STATEMENT
of the
CITY OF BOSTON, MASSACHUSETTS
relating to
\$000,000,000
GENERAL OBLIGATION BONDS, 2006 SERIES A

INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), and the \$000,000,000 General Obligation Bonds, 2006 Series A (the “Bonds”), to be issued by the City as described herein. Certain credit factors concerning the Bonds are described throughout this Official Statement, which should be read in its entirety. This Official Statement speaks only as of its date and the information contained herein is subject to change after this date.

The Bonds will be general obligations of the City, for the payment of the principal of and interest on which the full faith and credit of the City will be pledged. The Bonds are payable from ad valorem taxes which may be levied on all taxable property in the City without limit as to rate or amount as more fully described under “Security for the Bonds,” below. The proceeds of the Bonds will be used for the purposes of funding various capital projects, including the acquisition, design or construction of, or major renovation to, public buildings, school buildings, roadways, bridges and parks, the acquisition of certain departmental equipment, and certain neighborhood improvements. See “Authorizations and Purposes,” below.

THE CITY

The City of Boston, incorporated as a town in 1630 and as a city in 1822, is the largest city in Massachusetts and the capital of The Commonwealth of Massachusetts (the “Commonwealth”). The City and its component governmental units are responsible for the provision of a wide range of government services, including education, public safety, public health, urban planning and development and the maintenance of the City’s infrastructure, and for funding certain employee benefits, state authority assessments and debt service requirements. Its primary sources of revenue are property taxes, state aid and certain excises. Management of the City’s finances includes preparation of annual operating and capital budgets, the exercise of expenditure controls and cash management. For a full discussion concerning the City and its finances, see “Appendix A—Information Statement of the City of Boston.”

As the economic hub of New England, Boston is a center for professional, financial, higher educational and medical services and the focus of tourist and convention travel in New England. For a description of certain demographic and economic information about the City, see “Appendix B— City of Boston—Selected Demographic and Economic Information.”

AUTHORIZATIONS AND PURPOSES

The Bonds will be issued under the statutory authorizations and loan orders of the City Council to finance various capital projects of the City, all as more fully described in “Appendix C—Authorizations and Purposes.”

SECURITY FOR THE BONDS

The Bonds will be valid general obligations of the City, for the payment of the principal of and interest on which the full faith and credit of the City will be pledged. To the extent not paid from other legally available revenues of the City, the Bonds are payable from ad valorem taxes which may be levied upon all taxable property in the City without limit as to rate or amount.

Chapter 643 of the Acts of 1983 of the Commonwealth, as amended (the “Bond Procedure Act of 1983”), requires that the debt and interest charges on all general obligation indebtedness of the City (including the Bonds), if not otherwise provided for, be included in the City’s annual tax levy. The Bond Procedure Act of 1983 also mandates assessment of taxes in excess of the levy limits imposed by the statewide property tax limit (“Proposition 2½”) to the extent that the debt service on City obligations is not otherwise provided for in the tax levy or from other sources, with no allowance made for any other expenditures of the City. See “City Revenues—Property Taxes— Proposition 2½” in “Appendix A – Information Statement of the City of Boston.” Holders of City obligations do not have a statutory priority with respect to or a security interest in the portion of the tax levy attributable to such

obligations. See “City Indebtedness—Classification of City Debt” in “Appendix A – Information Statement of the City of Boston.”

In the opinion of Bond Counsel, the City is subject to suit on the Bonds, and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the Bonds from available funds or, in the absence of available funds, to order the inclusion of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors, including the current operating needs of the City and the availability and adequacy of other remedies.

Payment of the principal and interest on the Bonds is not secured by or limited to a pledge of any particular revenue source of the City. Chapter 190 of the Acts of 1982 of the Commonwealth (the “1982 Funding Loan Act”) and the Bond Procedure Act of 1983 authorize the City to pledge to the payment of any of its general obligation notes or bonds all or any part of the revenues of the City derived from any tax, fee, distribution or reimbursement payable to the City (except distributions and reimbursements required by law to be specifically used for statutorily defined purposes), including state aid distributions and the proceeds of the City’s annual property tax levy. No obligations are currently outstanding which are secured by such a pledge. The Bond Procedure Act of 1983 also authorizes the City to issue special obligation bonds payable solely from the revenues of a revenue-producing facility, and Chapter 152 of the Acts of 1997, as amended (the “Convention Center Act”), authorizes the City to pledge certain excise receipts and other revenues of the City to the payment of bonds of the City issued under the authority of the Convention Center Act. The only special obligation indebtedness of the City outstanding as of June 30, 2005 was \$___million of the City’s Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the “Convention Center Bonds”) and \$___million of the City’s Special Obligation Refunding Bonds, Boston City Hospital Issue (the “2002 BCH Refunding Bonds”). See “City Indebtedness—Special Obligation Debt” in “Appendix A – Information Statement of the City of Boston.” To the extent required for the payment of any such secured indebtedness, the revenues pledged to their payment would not be available to pay the Bonds.

Except to the extent specifically pledged to the payment of certain indebtedness, state aid distributions to the City are generally available for the payment of bonds or notes of the City, but, under certain circumstances, they may be unavailable to the extent such distributions are applied to the payment of “qualified bonds” issued by the City (none of which bonds have been issued), or to the extent that such distributions may be applied under state law to the satisfaction of unpaid assessments due the Commonwealth from the City for debt issued by the Massachusetts Bay Transportation Authority, or for obligations of the City or of the Boston Water and Sewer Commission issued to the Massachusetts Water Pollution Abatement Trust. See “City Indebtedness—Classification of City Debt” in “Appendix A – Information Statement of the City of Boston.”

State statutes also provide that certain parking meter receipts may be used only for parking and related purposes and, accordingly, monies derived from this source may be unavailable to pay general obligation bonds and notes issued for other purposes. In addition, subject to certain limits, the City may annually authorize the establishment of one or more revolving funds in connection with the use of certain revenues for programs that produce those revenues. If it accepts certain statutory provisions, the City may also establish enterprise funds for certain purposes, including for a health care, solid waste, recreational or transportation facility, and for police or fire services. Under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. The City has not established any such revolving funds or enterprise funds.

Section 19A of Chapter 44 of the General Laws provides, in part, that if the City is or is likely to be unable to pay principal of or interest on any of its bonds or notes when due, it shall notify the state Commissioner of Revenue. The Commissioner shall certify such inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount by the later of three days after the certification or one business day prior to the due date. This payment is limited, however, to the estimated amounts distributable by the Commonwealth to the City during the remainder of the fiscal year. If, for any reason, any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for such fiscal year. The sums so paid shall be charged with interest and administrative costs against the distributions to the City. The foregoing provisions are not a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions and the law requiring the Commonwealth to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the state’s annual appropriation act is often delayed beyond the beginning of the fiscal year, and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

The rights of the holders of the Bonds and the enforceability of payment of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

THE BONDS

Description

The Bonds will be dated January 15, 2006 and will mature on January 1 of the years, and in the amounts, and will bear interest calculated on the basis of 30-day months and a 360-day year at the rates, shown on the cover page of this Official Statement. Interest on the Bonds will be payable on July 1, 2006 and semiannually thereafter on each January 1 and July 1, provided that if such day is not a business day, interest will be payable on the next business day.

The Bonds will be issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"). Bond certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest on the Bonds will be paid on the interest payment dates or upon redemption, and principal of the Bonds will be paid at maturity or upon redemption, to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The record date for principal and interest payments will be the fifteenth day of the month next preceding a debt service payment date. The City will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

_____, [City], [State], will act as paying agent for the Bonds (the "Paying Agent").

Redemption Prior To Maturity

Optional Redemption

The Bonds maturing on or before January 1, 2016 will not be subject to redemption prior to maturity. The Bonds maturing on and after January 1, 2017 will be subject to redemption prior to maturity at the option of the City, on or after January 1, 2016, as a whole or in part at any time, in such order of maturity as the City may determine and by lot within each maturity as selected by DTC and its participants, at the par amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

Notice of Redemption

Notice of redemption of the Bonds, specifying the numbers and maturities of the Bonds or portions thereof to be redeemed and the redemption date, will be given not less than 30 days prior to the redemption date by notice mailed to DTC or its nominee, as registered owner of the Bonds. The City will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee. Notice having been given, the Bonds or portions thereof called for redemption will become due and payable on the designated redemption date at par plus accrued interest. If on the redemption date monies are available for the redemption of the Bonds or portions thereof to be redeemed, then interest on such Bonds or portions thereof shall thereafter cease to accrue.

Book-Entry-Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of that maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of

1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent,

disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

SCHEDULE OF DEBT SERVICE PAYMENTS

The following table sets forth the gross debt service requirements on the City's outstanding general obligation bonds as of January 1, 2006, the gross debt service requirements on the Bonds, and the resulting gross debt service requirements on general obligation bonds of the City following the issuance of the Bonds.

Schedule of Principal and Interest Payments (\$ in thousands)*

Fiscal Year Ending June 30	Bonds Outstanding as of January 1, 2006		The Bonds		Total
	Principal	Interest	Principal	Interest	Principal and Interest
2006	\$ 39,510	\$ 12,602	\$ —	\$ —	\$ 52,112
2007	76,641	35,358	—	—	111,999
2008	71,817	32,067	—	—	103,885
2009	69,708	28,678	—	—	98,386
2010	66,079	25,725	—	—	91,804
2011	60,885	22,640	—	—	83,526
2012	59,285	19,750	—	—	79,035
2013	54,785	16,944	—	—	71,729
2014	48,165	14,391	—	—	62,556
2015	43,685	12,050	—	—	55,735
2016	39,345	9,998	—	—	49,343
2017	36,085	8,088	—	—	44,173
2018	33,230	6,434	—	—	39,664
2019	29,360	4,913	—	—	34,273
2020	24,470	3,660	—	—	28,130
2021	19,650	2,562	—	—	22,212
2022	15,800	1,629	—	—	17,429
2023	12,300	888	—	—	13,188
2024	5,230	322	—	—	5,552
2025	2,660	106	—	—	2,767
2026	—	—	—	—	—
Totals	<u>\$808,689</u>	<u>\$258,808</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,067,499</u>

* Rows and columns may not add due to rounding.

Source: City of Boston Auditing Department

Rate of Principal Retirement

The City will retire the following amounts of principal of its outstanding general obligation bonds over the following respective periods. This table is stated in two ways, with scheduled principal retirement prior to the issuance of the Bonds and then subsequent to the issuance of the Bonds:

<u>Term of Retirement</u>	<u>Debt Outstanding as of January 1, 2006 to be retired (in thousands)</u>	<u>Percentage of Debt Outstanding as of January 1, 2006 to be retired</u>	<u>Debt Outstanding After Issuance of the Bonds to be retired (in thousands)</u>	<u>Percentage of Debt Outstanding After Issuance of the Bonds to be retired</u>
Fiscal 2006-2011	\$384,639	47.6%	\$384,639	47.6%
Fiscal 2012-2016	245,265	30.3	245,265	30.3
Fiscal 2017-2021	142,795	17.7	142,795	17.7
Fiscal 2022-2026	35,990	4.4	35,990	4.4
Total	<u>\$808,689</u>	<u>100.0%</u>	<u>\$808,689</u>	<u>100.0%</u>

Source: City of Boston Auditing Department

LITIGATION

No litigation is pending or, to the knowledge of the City's Corporation Counsel, threatened (a) seeking to restrain or enjoin the issuance or delivery of the Bonds, (b) contesting or affecting any authority for or the validity of the Bonds, (c) contesting the power of the City to issue the Bonds or the power of the City to offer and sell the Bonds to the Underwriters, (d) contesting the power of the City to levy and collect taxes to pay the Bonds (e) contesting the corporate existence or boundaries of the City, or (f) contesting the title of officials of the City who have acted with respect to the proceedings for the issuance and sale of the Bonds to their respective offices.

There are pending in courts within the Commonwealth various suits in which the City is a defendant. No litigation is pending or threatened which is likely to result, either individually or in the aggregate, in final judgments against the City which would affect materially its ability to pay the principal of and interest on the Bonds when due or which would affect materially its financial condition.

TAX EXEMPTION

In the opinion of [Edwards Angell Palmer & Dodge LLP](#), Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon is included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line

interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The City has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that any pending, proposed or future legislation, including amendments to the Code, if enacted into law, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective holders of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a holder of the Bonds. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

CREDIT RATINGS

FitchRatings ("Fitch"), One State Street Plaza, New York, New York, Moody's Investors Service Inc., ("Moody's"), 99 Church Street, New York, New York, and Standard & Poor's Rating Services, a division of the McGraw-Hill companies ("Standard & Poor's"), 55 Water Street, New York, New York, have assigned the ratings of "___," "___," and "___," respectively, to the Bonds, reflecting the City's capacity to pay debt service. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the Bonds.

COMPETITIVE SALE OF BONDS

The Bonds will be offered for sale by competitive bidding at 11:00 a.m. Eastern Standard Time on January 18, 2006, unless postponed or canceled as described in the Official Notice of Sale dated January __, 2006 (the "Official Notice of Sale") attached hereto as Appendix F. Electronic bids for the Bonds will be received on that date as further described in the Official Notice of Sale. This Preliminary Official Statement has been deemed final as of its date by the City in accordance with Rule 15c2-12 of the Securities Exchange Commission ("Rule 15c2-12"). After the Bonds have been awarded, the City will be preparing a final Official Statement (the "Final Official Statement"), which will be a "final official statement" within the meaning of Rule 15c2-12. The Final Official Statement will include, among other matters, the purchase price of the Bonds, and other information regarding the interest rates and reoffering prices or yields of the Bonds, as supplied by the winning bidders.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City. Reference should be made to the form of opinion set forth in Appendix D for the matters to be covered therein. In addition, Corporation Counsel of the City will certify as to certain matters, including the accuracy of the statements contained in the first paragraph under the caption "Litigation."

INDEPENDENT AUDITORS

The financial statements of the City of Boston included as Supplement I to Appendix A of this Official Statement have been audited by KPMG LLP, independent certified public accountants, to the extent and for the period indicated in their report thereon. Such financial statements have been included in this Official Statement in reliance upon the report of KPMG LLP and other auditors.

FINANCIAL ADVISOR

Public Financial Management, Inc. ("PFM") has served as financial advisor to the City for the issuance of the Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing securities or other public securities.

CONTINUING DISCLOSURE

In order to assist the underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), the City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 365 days after the end of each fiscal year (the "Annual Report"), and to provide notices of occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix E. The Certificate will be executed on the delivery date of the Bonds and incorporated by reference in the Bonds. The City has executed previous undertakings to provide annual reports or notices of material events in accordance with the Rule and has never failed to comply in all material respects with any such undertaking, except that, due to an administrative oversight, the annual reports required to be filed for fiscal years 2003, 2003 and 2004 were not filed within the time periods required under certain of such undertakings. The City has since filed a report to comply with such continuing disclosure undertakings, and it has implemented procedure to ensure timely filing of all future annual reports and notices of material events required thereunder.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representation of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City, or its agencies and authorities, since the date hereof.

CITY OF BOSTON, MASSACHUSETTS

By: _____
Chief Financial Officer and Collector-Treasurer

Dated: January __, 2006

CITY OF
BOSTON, MASSACHUSETTS



INFORMATION STATEMENT
Dated January 1, 2006

This Information Statement contains certain general and financial information concerning the City of Boston, Massachusetts (the "City"). The information is authorized by the City to be distributed to prospective purchasers in connection with bonds or notes offered for sale by the City, and to the nationally recognized municipal securities information repositories currently recognized by the Securities and Exchange Commission for purposes of its Rule 15c2-12. This Information Statement may not be reproduced or used in whole or in part for any other purpose without the express written consent of Lisa C. Signori, Chief Financial Officer and Collector-Treasurer, Boston, Massachusetts.

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Information Statement nor any sale made pursuant to any official statement or offering memorandum to which it is appended, in which it is included by reference or with which it is distributed shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

This Information Statement contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions of the City, the inclusion in this Information Statement of such forecasts, projections and estimates should not be regarded as a representation of the City that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Information Statement, the word "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date of this Information Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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THE CITY

The City, incorporated as a town in 1630 and as a city in 1822, exists under Chapter 486 of the Acts of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth which, as amended, constitute the City's Charter.

The Mayor is the chief executive officer of the City. Thomas M. Menino, the Mayor of the City, was reelected to serve a fourth four-year term from January 2006 through January 2010. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The portion of the City budget covering appropriations for all departments and operations of the City, except the School Department, the Boston Public Health Commission, and the Office of the Sheriff of Suffolk County, is prepared under the direction of the Mayor. Prior to his first elected term, Mayor Menino had served for approximately four months as acting Mayor. Prior to his service as acting Mayor, the Mayor served on the City Council. He served as Chairman of the City Council's Ways and Means Committee from 1988 to 1992, and was elected President of the City Council in 1993.

The legislative body of the City is the thirteen-member City Council. The City Council enacts ordinances and adopts orders, which the Mayor may either approve or veto. Ordinances and orders, except for orders for the borrowing or appropriation of money, may be enacted by the City Council over the Mayor's veto by a two-thirds vote. The City Council may reject or reduce a budget submitted to it by the Mayor, but the City Council may not increase a budget. For a description of the budget process, see "The City—Budget Process" herein.

The members of the City Council, all of whose current terms will end in January 2006, are set forth below.

Michael F. Flaherty, Jr. (President).....	At Large
Sam Yoon.....	At Large
Stephen J. Murphy	At Large
Felix D. Arroyo	At Large
Paul J. Scapicchio.....	District 1
James M. Kelly.....	District 2
Maureen E. Feeney.....	District 3
Charles C. Yancey.....	District 4
Robert J. Consalvo	District 5
John M. Tobin	District 6
Charles H. Turner.....	District 7
Michael P. Ross.....	District 8
Jerome P. McDermott	District 9

Organization of City Government

Mayor Menino established a cabinet form of government to recognize the major functional responsibilities of City government, to facilitate improvements in the conduct of the executive and administrative business of the City, and to eliminate duplication and waste.

The structure of the Mayor's cabinet is set forth in the organizational chart on the following page.

With the exception of the Superintendent of Schools, the City officials profiled below serve at the pleasure of the Mayor.

Chief of Staff

Merita A. Hopkins was appointed Chief of Staff by Mayor Menino in August 2004. The Chief of Staff is the chair of the Mayor's cabinet, and as such has an advisory role over all operations of City government. The Chief of Staff is also charged with supervising and directing the operations of the Mayor's office, including scheduling, security, policy and planning, press, constituent services and intergovernmental relations. Ms. Hopkins has served as the Mayor's Corporation Counsel for the last nine years. She continues to hold this position while a search is underway for her successor. The Corporation Counsel has supervisory authority over all City attorneys and legal affairs.

Chief of Policy and Planning

Michael J. Kineavy was appointed Chief of Policy and Planning by Mayor Menino in August 2004. Prior to his appointment, Mr. Kineavy served as Director of the Mayor's Office of Neighborhood Services. The Chief of Policy and Planning oversees the development and implementation of all policy initiatives for the City.

Chief Operating Officer

Dennis A. DiMarzio was appointed Chief Operating Officer ("COO") by Mayor Menino in April 1996. Prior to his appointment Mr. DiMarzio was Vice President at Arkwright Mutual Insurance in Waltham, Massachusetts where he served in a number of senior management positions in Real Estate Investments, Insurance Operations, Human Resources and Organizational Productivity and Efficiency. Mr. DiMarzio was appointed Chairman of the Board of Commissioners at the Boston Water and Sewer Commission in July 1994 and continues to serve in this capacity.

The COO is the key individual responsible for the daily administration of the entire City government. The COO reports directly to the Mayor and oversees the performance of City managers at all levels of City government. In addition, the COO oversees the Human Resources Department, the Office of Labor Relations, the Management Information Services Department, the Registry Division, the Office of Consumer Affairs and Licensing, the Boston Public Library, and the Graphic Arts Department. The COO oversees the purchase of health insurance for employees of all City departments and related Commissions. Finally, the COO coordinates the activities of all the other members of the Mayor's cabinet.

Chief Financial Officer and Collector-Treasurer

Lisa C. Signori was appointed Chief Financial Officer and Collector-Treasurer ("CFO") by Mayor Menino in October 2003. Prior to her appointment Ms. Signori served as the Director of the Office of Budget Management.

The CFO oversees all of the City's financial matters, including the functions of the Treasury, Assessing, Auditing, and Purchasing Departments, as well as the Office of Budget Management ("OBM") and the State-Boston Retirement Board. In addition, the CFO is custodian of approximately 300 City trust funds and serves as trustee of nearly half of these funds. The CFO is also an *ex officio* member of the Massachusetts Convention Center Authority (the "MCCA"). In her capacity as the City's Collector-Treasurer, Ms. Signori is responsible for the supervision of the City's Treasury Department, the collection of revenues due to the City, management of the City borrowings, and payment of all amounts due from the City, including amounts due on account of borrowings by the City in the form of either temporary or permanent debt.

The City officials with principal responsibility for its finances, subject to the approval of the CFO, are as follows:

Budget Director

Karen A. Connor was appointed Acting Budget Director by Mayor Menino in October 2003. Prior to her appointment, Ms. Connor served as a Deputy Budget Director. The Budget Director is responsible for the supervision of the Office of Budget Management ("OBM"), which develops and oversees the operating budget for all departments and operations of the City except the School Department. OBM is also responsible for the City's Capital Plan. OBM prepares and monitors the City's capital budget and coordinates strategic and long-range capital planning for City departments.

City Auditor

Sally D. Glora was appointed by Mayor Flynn in March 1990 as Acting City Auditor, and in December 1990 as City Auditor. Prior to her appointment as Acting City Auditor, Ms. Glora served as the Deputy City Auditor. The Auditor is responsible for monitoring the internal controls, managing grant funds, providing financial reports, maintaining the books and records for the City, and for approving all payments made by the City. Ms. Glora is an *ex officio* member of the State-Boston Retirement Board.

Commissioner of Assessing

Ronald W. Rakow was appointed by Mayor Flynn in March 1993. Prior to his appointment, Mr. Rakow served as the Acting Commissioner of Assessing from September 1992 to March 1993. Prior to his appointment as the Acting Commissioner of Assessing, Mr. Rakow served as the Director of Research and Standards for the City Assessing Department. The Commissioner of Assessing is responsible for supervision of the City's Assessing Department and the valuation for purposes of the tax levy of real and personal property located in the City.

Chief Economic Development Officer

Mark Maloney was appointed Chief Economic Development Officer and Director of the Boston Redevelopment Authority (the "BRA") in January 2000. Prior to his appointment, Mr. Maloney served as President of Maloney Properties, Inc., a real estate management firm managing housing, especially affordable housing, throughout the greater Boston area. The Chief Economic Development Officer is responsible for planning, zoning, and economic development for the City. The Economic Development Cabinet is comprised of the BRA, the Economic Development and Industrial Corporation ("EDIC"), including the EDIC's office of Jobs and Community Services, and the Office of Small and Local Business Enterprises.

Chief of Education

Thomas W. Payzant was named Superintendent of the Boston Public Schools by the Boston School Committee in July 1995 and his term extends to December 2005. Prior to his appointment by the Boston School Committee, Dr. Payzant served as the Assistant Secretary of Education for Elementary and Secondary Education, United States Department of Education and he had served as Superintendent of the San Diego Public Schools for ten years. The Education Cabinet is responsible for managing the Boston Public Schools. Among the Education Cabinet's responsibilities is the development of a plan for schools and other City and non-City agencies to develop cooperative programs to guarantee that the best possible resources are available to Boston's children. For a description of the student population, staffing, curricula, and governance of the Boston Public Schools, see "The City—Principal Government Services—Schools" below.

Chiefs of Public Safety

Kathleen M. O'Toole, the City's Police Commissioner, and Paul A. Christian, the City's Fire Commissioner, are the Chiefs of the Public Safety Cabinet. Commissioner O'Toole, a veteran with more than 20 years of law enforcement experience, was appointed Police Commissioner by Mayor Menino in February 2004. Commissioner Christian, a 37-year veteran, was appointed Fire Commissioner by Mayor Menino in November 2001. The City's Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services. For a description of Police and Fire Department resources and personnel see "The City—Principal Governmental Services—Public Safety" below.

Director of the Office of Homeland Security

Carlo A. Boccia was appointed director of the City's newly created Office of Homeland Security by Mayor Menino in March 2004. Mr. Boccia, a security expert, has over thirty years experience with both the Drug Enforcement Agency and in private practice.

Chief of Human Services

J. Larry Mayes was appointed Chief of Human Services by Mayor Menino in September 2004. The Human Services Cabinet is responsible for providing human and other support services for all of Boston's residents through its seven departments: Boston Centers for Youth and Families, the Boston Youth Fund, the Elderly Commission, the Emergency Shelter Commission, the Women's Commission, the Veteran's

Services Department, and the Office of Civil Rights, which is comprised of the Fair Housing Commission, the Commission for People with Disabilities, and the Human Rights Commission.

Chief of Public Health

John M. Auerbach became Executive Director of the Boston Public Health Commission effective February 1, 1998. In that capacity Mr. Auerbach joined the Mayor's cabinet as the Chief of Public Health. Prior to his appointment Mr. Auerbach served as the Assistant Commissioner of the Commonwealth's Department of Public Health, and as Director of the Commonwealth's HIV/AIDS Bureau. The Commission, an independent agency, is a body politic and corporate and political subdivision of the Commonwealth. The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. The Commission is divided into six programmatic areas. These are: the Emergency Medical Service, which includes the City's ambulances, EMTs and paramedics responding to the "911" emergency system; Homeless Services; Communicable Disease Control; Substance Abuse Services; Community Health; and Child and Family Health. For additional information concerning the Boston Public Health Commission see "The City—Principal Government Services—Public Health" below.

Chief of Basic City Services

Michael Galvin was appointed Chief of Basic City Services by Mayor Menino in August 1994. Prior to his appointment, Mr. Galvin was employed by NYNEX and had previously served as the City's first "Executive on Loan." The Basic City Services Cabinet consists of the Parks and Recreation Department, the Office of Special Events and Tourism, the Election Department, the Property and Construction Management Department, of which Mr. Galvin is Commissioner and Director of Public Facilities, and which includes Capital Construction, the Animal Control Unit, Building Maintenance and Systems, and Municipal Police. The Cabinet's charge includes investigating opportunities to apply technological innovations to reduce costs or improve the delivery of basic services.

Chief of Environmental and Energy Services

James W. Hunt was appointed Chief of Environmental and Energy Services in March 2005. Prior to his appointment, Mr. Hunt served as Assistant Secretary for the Commonwealth's Executive Office of Environmental Affairs and was responsible for administering the Massachusetts Environmental Policy Act. The Chief of Environmental and Energy Services is responsible for environmental and energy policies for the City. The Environmental and Energy Services Cabinet is comprised of the Environment Department, Inspectional Services Department, the Park's Department Open Space Planning, Boston's Recycling Program, and also serves as a liaison to the Boston Water and Sewer Commission and the Massachusetts Water Resources Authority.

Chief of Housing and Neighborhood Development

Charlotte Golar Richie was appointed Chief of Housing in January 1999. Prior to her appointment, Ms. Richie was State Representative of the Fifth Suffolk District, which includes the City's Dorchester and Roxbury neighborhoods. In her capacity as Chief of Housing, Ms. Richie is the Director of the Department of Neighborhood Development and is responsible for overseeing the Rental Housing Resource Center ("RHRC"). The Department of Neighborhood Development is responsible for business development, homeowner/homebuyer programs, housing development, surplus land and building management and disposition, and certain City capital construction projects. The RHRC provides a variety of services to tenants and owners of the City's residential housing stock.

Chief of Public Housing

Sandra B. Henriquez was appointed Chief of Public Housing in December 1996, when Mayor Menino elevated the position of Administrator of the Boston Housing Authority (the "BHA") to the level of a cabinet post. Prior to her appointment as Administrator of the BHA in April 1996, Ms. Henriquez was a principal of Maloney Properties, Inc., a private management firm specializing in the delivery of property management services to resident-controlled and non-profit sponsored housing. The Boston Housing Authority is a public body established under the laws of the Commonwealth of Massachusetts. It is responsible for the financing, construction, operation, and management of public housing for low-income families and individuals.

Chief of Streets, Transportation & Sanitation

The Streets, Transportation & Sanitation Cabinet includes the Public Works Department, the Transportation Department, Central Fleet Maintenance and Snow Removal. A Chief of Streets, Transportation & Sanitation has not yet been named. For additional information concerning the Public Works Department, see “The City—Principal Government Services—Public Works,” below.

Principal Government Services

The following tables show, respectively, the distribution of the City’s fiscal 2006 appropriations and full-time equivalent City employees by primary government functions and departments.

Purposes of City Appropriations—Fiscal 2006⁽¹⁾ (Budgetary Accounting Basis)⁽²⁾ (\$ in thousands)

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government	\$ 59,421	2.9%
Public Safety.....	427,692	20.9
Public Works	93,811	4.6
Property and Development	32,479	1.6
Parks and Recreation	15,134	0.7
Library	26,694	1.3
Human Services.....	24,506	1.2
Schools	712,683	34.6
Boston Public Health Commission.....	61,300	3.0
Judgments and Claims	3,500	0.2
Employee Benefits	159,002	7.8
Current Period Retirement Contributions	190,985	9.3
Debt Requirements	118,	5.8
State and District Assessments	123,212	6.0
Total.....	<u>\$2,048,925</u>	<u>100.0%</u>

(1) Represents the fiscal 2006 Tax Rate Budget as of [December 2, 2005](#).

(2) See “Financial Operations – Operating Budgets” for a definition of budgetary accounting basis.

Source: City of Boston Auditing Department and Office of Budget Management.

Full-Time Equivalent City Employees By Department⁽¹⁾

	<u>2003</u>	<u>2004</u>	<u>2005.</u>
<i>City Funded:</i>			
Public Safety ⁽²⁾	4,608	4,393	<u>4,451</u>
Public Works.....	426	409	<u>424</u>
Other City Departments	2,913	2,762	<u>2,739</u>
Boston Public Health Commission ⁽³⁾	745	728	<u>743</u>
Subtotal	<u>8,692</u>	<u>8,292</u>	<u>8,357</u>
Schools	<u>8,440</u>	<u>7,792</u>	<u>8,009</u>
Total City Funded	<u>17,132</u>	<u>16,084</u>	<u>16,366</u>
<i>Grant Funded:</i>			
Schools	934	866	<u>924</u>
All Others ⁽⁴⁾	<u>1,480</u>	<u>1,468</u>	<u>1,449</u>
Total	<u>19,546</u>	<u>18,418</u>	<u>18,739</u>

(1) All data are as of January 1 in the year stated. The methodology used in compiling these data was established jointly by the City and the Boston Municipal Research Bureau.

(2) Public Safety includes both the Police Department and the Fire Department.

(3) Boston Public Health Commission employees are funded by the City, but are not employees of the City.

(4) Does not include grants managed by the Boston Public Health Commission.

Source: City of Boston Office of Budget Management.

A description of certain City principal governmental services follows:

Schools

The City's School Department provides both basic education and college preparatory curricula as well as specialized vocational educational programs. The school system enrolled 58,420 students for the 2004-2005 school year, a decrease of approximately 1,797 students from the preceding school year.

Pursuant to Chapter 108 of the Acts of 1992, the City's public schools are under the control of a School Committee, which consists of seven members appointed by the Mayor. Members of the School Committee have staggered four-year terms. In addition to appointing the Superintendent of Schools, the Boston School Committee approves the School Department budget for submission to the Mayor, and by and through the Superintendent, determines educational policy, makes all contracts for the purchase of materials for the operations of the schools, and maintains and operates school properties. The Superintendent of Schools has exclusive authority to make appointments and promotions for all teachers and other School Department personnel except for the positions of Community Superintendent, Chairman, Secretary, or Treasurer of the School Committee, School Committee Administrative Assistants, and Special Assistant Corporation Counsels. The School Committee appoints these excepted positions.

Public Safety

The Public Safety Cabinet is continuing to improve citywide service-delivery through consolidated and shared resources to provide more effective and efficient public safety services to Boston's communities.

The Police Department maintains eleven neighborhood police stations and one headquarters building. It also maintains ten support programs, consisting of the Police Academy, Horse Stables, Firearms Training Range, Harbor Patrol Unit, Fleet Management Unit, Telecommunications Unit, Evidence and Property Management Facility, Special Operations Division, Stress Support Unit and Sexual Assault Unit. The City's newest police station in the South End was completed in Spring 2001.

The City's overall crime figures for Calendar Year 2004 (through November, 2004) show a 5.5% decrease compared to the same period in 2003.

The Fire Department maintains 40 facilities consisting of 34 neighborhood fire stations, one marine unit, a fire investigation unit/maintenance division, a high-pressure pumping station, a training academy, a fire alarm operation division and headquarters. In 2004, in order to facilitate mitigation of emergencies and fires, the Fire Department began to provide critical information to firefighters wirelessly via laptop computers.

In calendar year 2004 the Fire Department responded to 70,463 incidents, a reduction of 5.6% compared to calendar year 2003. Of the calendar year 2004 total, 27,339 responses were calls of an emergency medical nature. The number of structural fires increased 6.6%, from 1,711 in 2003 to 1,823 in 2004, but multiple alarm fires decreased 16.7% from 30 in 2003 to 25 in 2004.

The Mayor's Office of Homeland Security coordinates and directs Boston's interdepartmental and multi-jurisdictional homeland security activities by advising the Mayor on issues and obtaining and managing outside funding.

Public Health

Effective July 1, 1996 the City's Department of Health and Hospitals, and the separately chartered Trustees of Health and Hospitals of the City of Boston, were abolished and all assets, liabilities, rights and powers of both were transferred to and assumed by the Boston Public Health Commission (the "Commission"). Also effective July 1, 1996, the operations of the City's acute-care hospital, Boston City Hospital ("BCH"), were consolidated with the operations of Boston University Medical Center Hospital, a private teaching hospital affiliated with Boston University School of Medicine which was located adjacent to the BCH campus. Boston Medical Center Corporation ("BMCC"), a private, Massachusetts non-profit corporation, now operates the consolidated hospitals under the name "Boston Medical Center." See "City Indebtedness—Debt of Agencies Related to the City—Boston Public Health Commission."

The Commission, as a separate entity from the City, is governed by a seven-member board, six of whom are appointed by the Mayor, subject to confirmation by the City Council, and one of whom, as the chief executive officer of BMCC, serves ex-officio. The Commission functions as the City's board of health and operates a wide range of public health programs throughout the City funded from public and

private grants and City appropriations. The Commission is a discretely presented component unit for GAAP reporting purposes in the City's annual audited financial statements.

Public Works

The Public Works Department constructs and maintains highways, sidewalks, street lighting and bridges, and oversees snow removal, street cleaning, refuse removal and recycling. The City advertised, awarded, and executed five contracts for the provision of sanitation, solid waste collection and disposal services, including recycling, for a four-year term beginning July 1, 2005 and ending June 30, 2009. The cost of these services equaled approximately \$41.27 million in fiscal 2005. The estimated cost of these contracts in fiscal 2006 equals approximately \$42.6 million. The Boston Water and Sewer Commission ("BWSC"), an independent agency, is responsible for the operation and maintenance of the City's water, and sewer, and storm water drainage systems, the construction of improvements to those systems, and the collection of user charges for its services. See "City Indebtedness—Debt of Agencies Related to the City—Boston Water and Sewer Commission" below.

Other Services

The Boston Public Library Department operates a central library, 26 neighborhood branch libraries, a downtown business library, and two service buildings. The Parks and Recreation Department manages approximately 2,200 acres of active, passive and historic parkland. The 2,200 acres of land include 272 parks, playgrounds, squares, malls, plazas, and other miscellaneous sites; sixteen historic and three active cemeteries; one greenhouse facility; and approximately 50,000 street trees.

Office of the Suffolk County Sheriff

While existing state law provides that the Mayor and City Council serve as the Commissioners of Suffolk County, which includes the Cities of Boston, Chelsea and Revere and the Town of Winthrop, all of the functions and costs of county government, including the county courts and registry of deeds, have been assumed by the Commonwealth, other than the operations of the Office of the Suffolk County Sheriff. The Suffolk County Sheriff is an elected position under state law who administers the county jail and houses of correction independent of the City. Legislation is currently pending in the state legislature to abolish the government of Suffolk County.

Under legislation enacted in 1985 and 1991, the Commonwealth assumed responsibility for all of the capital costs of the county jail and houses of correction. Currently, the operating budget for the Office of the Suffolk County Sheriff is prepared under the supervision of the Sheriff, without submission to or approval by the Mayor or the City Council, but subject to approval by the Commonwealth's County Government Finance Review Board, consisting of the Secretary of Administration and Finance, the Commissioner of Revenue and the Secretary of Public Safety. Since 1992, the Commonwealth has also assumed responsibility for varying percentages (96% in fiscal 2006) of the state-approved operating budget for the Sheriff's Office. The City's fiscal 2006 budget includes an appropriation for the remaining 4% of the state-approved budget.

Employee Relations

Under Massachusetts General Laws Chapter 150E, most municipal employees in the Commonwealth enjoy the right to join labor unions and bargain collectively over wages and other terms and conditions of employment. The Office of Labor Relations represents the Mayor and the City in all collective bargaining matters with all unions of City employees except School Department employee unions. The School Department's labor relations personnel similarly represent the School Committee and consult with the Office of Labor Relations regarding contract negotiations and other general labor matters. Additionally, the Office of Labor Relations has actively assisted the Boston Public Health Commission in collective bargaining negotiations with its eleven bargaining units and regularly interfaces with the Boston Public Health Commission on labor and employment matters. The Office of Labor Relations provides no such assistance to the Office of the Suffolk County Sheriff, which itself manages relations with its employees.

Nearly all of the City's non-school department employees are organized into bargaining units represented by various unions. Most of these unions are affiliated with the AFL-CIO. Three large unions, the American Federation of State, County, and Municipal Employees ("AFSCME") Council 93 (laborer employees), the Service Employees International Union ("SEIU") Local 285 (clerical employees), and the Salaried Employees of North America ("SENA") Local 9158 (middle manager employees) represent the majority of City's non-public safety employees.

Police officers are represented by four distinct unions, the Boston Police Patrolmen's Association ("BPPA"), the Boston Police Superior Officers Federation ("Federation"), the Boston Police Detectives Benevolent Society ("Detectives") and the Boston Police Detectives Benevolent Society, Superior Officers Unit ("Detective Superiors"). Firefighters and Fire Chiefs are divided into two bargaining units represented by a single union: the International Association of Firefighters ("IAFF") Local 718.

Boston teachers, teacher aides, school nurses, and substitutes are in a collective bargaining unit represented by the Boston Teachers Union ("BTU"), an affiliate of the AFL-CIO.

The table below represents a summary of the bargaining units representing City employees, the number of City employees represented by each bargaining unit, and the status of the City's contract with each bargaining unit.

Collective Bargaining Units (City and Schools)

<u>Union</u>	<u>Department</u>	<u>Number of Employees Represented</u> ⁽¹⁾	<u>Contract Expiration Date</u> ⁽²⁾
Boston Patrolmen's Association	Police	1,438	6/30/06
Boston Police Superior Officers	Police	242	6/30/06
Boston Police Detectives Benevolent Society	Police	249	6/30/06
Superior Detective Benevolent Society	Police	107	6/30/06
Police Cadet Association	Police	16	9/30/06
School Traffic Supervisors Assoc.	Police	200	11/30/06
International Association of Firefighters, Local 718	Fire	1,572	6/30/06
Municipal Police Patrolmen's Association	Property & Construction Mgmt	109	6/30/06
Municipal Police Superior Officers Association	Property & Construction Mgmt	21	6/30/07
SEIU, Local 888	Citywide	1,122	9/30/06
SENA, Locals 9158 and 9158E	Citywide	660	6/30/06
AFSCME C93 (Citywide & various locals)	Citywide	1,208	6/30/06
AFSCME Local 1526	Library	285	9/30/06
Professional Staff Association (BPL)	Library	153	9/30/06
Graphic Arts Unions	Graphic Arts and Police	24	9/30/06
Other City Unions	Inspectional Services and Property & Construction Mgmt	40	6/30/06
Boston Teachers Union	School	7,558	8/31/06
BASAS (School Administrators & Supervisors)	School	293	8/31/06
SEIU Local 888	School	413	11/30/06
Boston School Police	School	62	8/31/06
School Police Superior Officers Assoc.	School	20	6/30/02 ⁽²⁾
School Custodians Local 1952, Painters & Allied	School	407	8/31/08
Trades District Council #35			
Plant Administrators Association	School	13	8/31/08
School Bus Monitors USWA Local 8751	School	403	6/30/07
Lunch Hour Monitors Association	School	318	8/31/04 ⁽²⁾
AFSCME C93, Local 230 Cafeteria Workers	School	318	8/31/03 ⁽²⁾
AFSCME C93, Storekeepers & Deliverymen	School	15	8/31/02 ⁽²⁾
		17,266	

(1) Number of members as of January 1, 2004. Refinement of methodology may result in adjustments to number of members reflected for School unions.

(2) The City is currently in negotiations with those school units whose contracts have expired.

Source: Office of Budget Management, Boston Administrative Systems/Human Resources Management System (BAIS/HRMS) and Boston School Department.

FINANCIAL OPERATIONS

Budget Process

Program-Based Budgeting

The City of Boston maintains a program-based budgeting system to track expenditures and service levels by major functions or “programs.” This budgeting system complies with the standards of the Government Finance Officers Association, which has consistently recognized the City’s efforts with its Distinguished Budget Presentation Award.

The City’s fiscal year begins July 1 and ends on June 30 of the following calendar year. Pursuant to state law, the Mayor must submit an operating budget to the City Council by the second Wednesday in April for its review and approval. Proposed appropriations for all departments and operations of the City (except for the public schools and public health services) are prepared under the direction of the Mayor in the Office of Budget Management (“OBM”). The Superintendent of Schools must submit a budget to the School Committee by the first Wednesday in February. The School Committee must approve a budget by the fourth Wednesday in March and forward this budget to the Mayor who may approve or reduce the total recommended budget. The Mayor then submits the school budget to the City Council for appropriation by the second Wednesday in May. In practice, the School Department appropriation request has been presented to the City Council in coordination with the Mayor’s operating budget request in April. The Boston Public Health Commission must submit a revenue and expenditure budget for public health services to the Mayor by the second Wednesday in March. If the proposed budget provides for expenditures in excess of the Commission’s projected revenues from non-City sources, the Mayor may either approve or reject the budget. If the Mayor accepts the budget, the amount required to fund the revenue deficiency (the “net cost of public health services”) is included in the annual budget for the City submitted to the City Council in April of each year. The Commission must adopt its public health services budget by the second Wednesday in June.

The City Council may reduce or reject any item in the Mayor’s budget but may not, except upon the recommendation of the Mayor, increase or add an item. After approval of the budget and until the property tax rate is officially determined in mid-December, the Mayor may submit to the City Council such supplementary appropriation requests as are deemed necessary, including supplemental amounts for the School Department and the Boston Public Health Commission. The Mayor may also submit to the City Council supplementary appropriation requests subsequent to the setting of the property tax rate. Under certain circumstances, the Mayor may, by executive order, require expenditures to be limited to an amount less than the appropriated level.

In the event that the City enters a fiscal year without an approved operating budget, the City continues departmental operations on a “one-twelfth” budget, as provided in the City Charter. Under the one-twelfth budget process, (a) payrolls for regular employees cannot exceed the average monthly expenditure of the last three months of the preceding fiscal year, (b) total liabilities incurred in any month cannot exceed amounts spent for similar purposes during any one month of the preceding fiscal year, and (c) monthly expenditures for new departments cannot exceed one-twelfth of their current fiscal year’s estimated costs.

The City, Boston Public Health Commission and School Department operating budgets for fiscal [2006](#) were approved by the City Council on [June 29, 2005](#). See “Financial Operations—Fiscal [2006](#) Budget”. The Mayor also initiates loan orders for City Council consideration, based on an annual update of the Five-Year Capital Plan. There is no statutory time frame for requesting or approving such orders. New authorizations related to the fiscal [2006](#) Five-Year Capital Plan were submitted to the City Council on April [12, 2005](#), and were approved by the City Council [on June 29, 2005](#).

By law, the City must establish its property tax rate each year so that the resulting property tax levy complies with the requirements of Proposition 2½. (For a discussion of Proposition 2½, see “City Revenues—Property Taxes—Proposition 2½”.) The amount raised in the tax levy equals the sum of (a) the aggregate of all amounts appropriated, granted or lawfully expended since the last annual tax levy and not provided for, plus (b) all debt and interest charges on general obligation debt of the City maturing during the fiscal year and not otherwise provided for, plus (c) all amounts necessary to satisfy final judgments, plus (d) provision for certain prior years’ deficits, less (e) the aggregate of all non-property tax revenues projected to be received in the City’s General Fund in amounts certified or approved by the Commonwealth for tax rate purposes. In general, the City is required to raise in the tax levy a deficit incurred on a statutory

accounting basis in the prior year's operating budget, or a deficit incurred in the property tax abatement reserves.

Capital Budgeting

The Capital Budgeting Program ("CBP"), a program of OBM, is responsible for managing the capital budget of the City. CBP's mission is to evaluate the condition of the City's capital assets, forecast the timing and financial requirements of new construction and rehabilitation, and recommend allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses are taken.

CBP evaluates and refines the relationship between the City's capital needs and resources as the City moves through each fiscal year. This process is documented by an annually updated five-year capital plan. In April 2005, Mayor Menino released the FY06-10 capital plan, incorporated with the operating budget. In addition to its planning functions, CBP also plays an ongoing project oversight role during the implementation phase of its capital projects. CBP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2002-2006

In accordance with state law and regulations, the City's legally adopted General Fund budget as shown below is prepared on a "budgetary basis" instead of accounting principles generally accepted in the United States of America ("GAAP"). For purposes of comparison the table below includes budgetary actual results for fiscal 2002 through fiscal 2005, alongside fiscal 2006 budget numbers. Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover for a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures.

In fiscal 2004, the Commonwealth's Department of Revenue included Charter School Tuition for the first time as part of the City's state assessments, thus increasing the City's total expenditures. Prior to this change, the City accounted for Charter School Tuition as an offset to State Aid thus reducing total revenues. While this change in accounting method has no impact on the budget balance ("Excess of Revenues over Expenditures"), it does skew the annual comparisons of total expenditures and of total revenues between years prior to fiscal 2004 and after.

Thus, in order to state the comparisons fairly, both the table prior and the following text are adjusted to the fiscal 2004 reporting method and assume the amount charged to the City for Charter School Tuition in fiscal 2002 and 2003 is accounted for as a charge and not as revenue offset. The following comparisons are impacted by this adjustment: total expenditures, total revenues, state assessments and state aid.

Fiscal 2005 Budget
Compared to Fiscal 2001, Fiscal 2002, Fiscal 2003 and Fiscal 2004 Actual Results
General Fund—Budgetary Basis
(\$ in millions)*

	Fiscal 2001 Actual Results	Fiscal 2002 Actual Results	Fiscal 2003 Actual Results	Fiscal 2004 Actual Results	Fiscal 2005 Budget ⁽¹⁾
Revenues:					
Recurring Revenue					
Property Taxes	\$ 917.9	\$ 972.7	\$ 1,035.9	\$ 1,094.1	\$ 1,148.7
Overlay Reserve ⁽²⁾	(43.9)	(46.3)	(39.8)	(42.1)	(43.7)
Excises	72.7	80.6	83.1	59.6	66.0
Fines	59.8	60.7	59.0	66.7	62.0
Interest on Investments	26.1	14.8	8.6	7.8	7.3
Payments In Lieu of Taxes	25.9	19.6	22.1	22.3	22.8
Urban Redevelopment Chapter 121A	46.9	48.4	54.1	54.8	50.2
Misc. Department Revenue	45.1	54.1	45.6	40.8	30.2
Licenses and Permits	37.8	29.6	30.1	34.8	25.4
Penalties & Interest	8.0	8.1	9.2	9.8	8.0
Available Funds	8.4	4.6	11.8	2.9	12.0
State Aid	505.7	522.7	476.6	459.8	462.0
Teachers' Pension Reimbursement	41.4	45.3	53.7	61.4	61.4
Total Recurring Revenue	\$ 1,751.6	\$ 1,814.8	\$ 1,849.9	\$ 1,872.8	\$ 1,912.2
Non-Recurring Revenue ⁽³⁾	—	—	13.0	20.0	16.9
Total Revenues	\$ 1,751.6	\$ 1,814.8	\$ 1,862.9	\$ 1,892.8	\$ 1,929.1
Expenditures:					
Departmental Expenditures					
City Departments	\$ 727.8	\$ 754.6	\$ 776.5	\$ 779.5	\$ 798.6
Boston Public Health Commission	62.1	64.0	63.9	58.8	60.4
School Department	611.9	639.7	650.6	656.5	680.1
Collective Bargaining Reserve	12.5	6.2	8.4	21.3	—
Total Departmental Expenditures	\$ 1,414.4	\$ 1,464.5	\$ 1,499.4	\$ 1,516.0	\$ 1,539.1
Fixed Costs					
Pensions ⁽⁴⁾	\$ 127.5	\$ 129.7	\$ 134.4	\$ 137.0	\$ 146.6
Debt Service ⁽⁵⁾	106.0	115.6	121.3	123.9	122.4
State Assessments	88.7	94.3	101.1	106.5	116.9
Suffolk County Sheriff	6.0	4.5	4.7	4.6	4.2
Reserve	0.5	1.0	0.2	0.4	0.0
Total Fixed Costs	328.7	345.2	361.8	372.4	390.0
Total Recurring Expenditures	\$ 1,743.0	\$ 1,809.7	\$ 1,861.1	\$ 1,888.4	\$ 1,929.1
Excess of Revenues Over Expenditures	\$ 8.6	\$ 5.2	\$ 1.8	\$ 4.4	\$ 0.0

* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the tax rate budget on December 17, 2004.
- (2) The City requirement to reserve an amount equivalent to between 5% and 6% of each year's net property tax levy in a reserve for property tax abatements was repealed in 2003. If the City's reserves for abatements prove at the end of the fiscal year to be insufficient to cover the City's abatement liability, the City is required to raise in the following year's tax rate an amount sufficient to generate additional reserves to cover the shortfall.
- (3) Non-recurring revenue represents a portion of the proceeds from the Surplus Property Fund in fiscal 2003 (\$13.0 million) and Budgetary Fund Balance (\$20.0 million) in fiscal 2004. Non-recurring revenue of \$16.9 million in fiscal 2005 consists of proceeds from the Surplus Property Fund (\$1.9 million) and Budgetary Fund Balance (\$15.0 million).
- (4) Excludes noncontributory pensions and annuities that are included in departmental expenditures. The amount of such non-contributory pensions and annuities equaled \$6.3 million, \$6.0 million, \$4.9 million and \$4.9 million, respectively in fiscal 2001, 2002, 2003 and 2004.
- (5) The debt service amount is derived from principal and interest, less certain offsetting revenues. The revenues utilized to offset debt for budgetary and tax rate setting purposes vary from those used in the table "Debt Service Requirements-Fiscal 2000-2004." See "City Indebtedness-Debt Service Requirements."

Source: City of Boston Office of Budget Management and Auditing Department.

Fiscal 2002-2005 Actual Results

On a budgetary basis, fiscal 2002 was a stable year during which the City received adequate resources, controlled spending and added to reserve fund balance. During fiscal 2003 and fiscal 2004, the City absorbed substantial decreases in annual aid from the Commonwealth and in various economically sensitive excise tax revenue streams due to the national recession. (For a discussion of aid from the Commonwealth, see "City Revenues—State Aid.") These revenue reductions occurred in tandem with increasing fixed costs, specifically in the areas of employee health insurance and pension funding. In response, the City implemented several cost containment and reduction initiatives including, among others, a position control review board, a hiring freeze, retirement incentives, a three-year extension of the pension funding schedule, and the first use of reserve fund balance in over ten years. Through these efforts and continued growth in the property tax, the City maintained a balanced operating budget, protected core public services and produced operating surpluses throughout this period.

In Fiscal 2005, city revenues recovered from the recession-driven lows of the prior two years and the property tax continued to produce steady revenue growth. State aid to the city did not return to pre-

recession levels, however, and the city continued to experience steep increases in employee health insurance and pension costs. In spite of these cost pressures and slack state aid growth, the city was able to maintain a balanced budget, forgo the use of reserves, and produce a small operating surplus.

Fiscal 2005 Budget

The following is a summary of the City's fiscal 2005 budget on a budgetary accounting basis. The figures cited are from the fiscal 2005 tax rate budget at the time of certification of both the aggregate amount of and the rates of tax for the City's fiscal 2005 property tax levy by the Massachusetts Department of Revenue. This certification was completed on December 17, 2004.

Expenditures

In fiscal 2005, the City's budgeted expenditures total \$1.93 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$40.7 million or 2.2% from fiscal 2004 actual expenditures. Budgeted fiscal 2005 departmental expenditures compare with actual fiscal 2004 expenditures as follows: City departments increased \$19.2 million or 2.5%; the Boston Public Health Commission increased \$1.6 million or 2.8%; the School Department increased \$23.6 million or 3.6%; the Collective Bargaining Reserve decreased \$21.3 million or 100%. Budgeted fixed expenses for fiscal 2005 compare with the fiscal 2004 actual expenses as follows: Pensions increased \$9.6 million or 7.0%; debt service decreased \$1.5 million or 1.2%; State Assessments increased \$10.4 million or 9.7%; budgeted expenditures for the Office of the Suffolk County Sheriff decreased \$0.4 million; or 7.7%. The appropriation for the Suffolk County Sheriff is treated as a mandatory expenditure included in Fixed Costs because it is required by, and calculated in accordance with, state law. See "The City—Principal Government Services—Office of the Suffolk County Sheriff."

The increases in City Departments, as well as the School Department and the Public Health Commission, are the result of collective bargaining costs in fiscal year 2005, and inflationary increases in health insurance and non-personnel costs such as utilities and trash removal. The decrease in the Collective Bargaining Reserve is the result of the costs for collective bargaining now being reflected in the appropriate department budgets for fiscal year 2005. The Pension increase is mandated by the City's pension funding schedule as approved by the State-Boston Retirement System and the state actuary and is a legal obligation of the City. State Assessments are also mandatory; the amounts are determined by the Commonwealth and are communicated to the City.

Revenues

Budgeted revenues for fiscal 2005 equaled \$1.93 billion, an increase of \$36.3 million or 1.9% from fiscal 2004 actual revenues. Selected fiscal 2005 budgeted revenues compare with fiscal 2004 actual revenues as follows: the Gross Property Tax Levy (including new growth) increased \$54.6 million or 5.0%; Excises increased \$6.4 million or 10.7%; Fines decreased \$4.6 million or 7.0%; Interest on Investments decreased \$0.5 million or 6.3%; Payments in Lieu of Taxes ("PILOTs") increased \$0.5 million or 2.2%; Chapter 121A distributions decreased \$4.6 million or 8.3%; Miscellaneous Department Revenue decreased \$10.6 million or 25.9%; Licenses and Permits decreased \$9.5 million or 27.2%; Available Funds from parking meter and cemetery fees increased \$9.1 million; State Aid increased \$2.1 million or 0.5%; Non-Recurring Revenue decreased by \$3.1 million or 15.6%.

Property Taxes, the City's largest source of revenue, have become increasingly important to the City's revenue growth given the recent reductions in State Aid. Property tax revenues are expected to rise \$54.6 million in fiscal 2005 after having increased by over \$50 million in each of fiscal years 2002, 2003 and 2004. The near-term outlook for the City's property tax levy is one of stable and sustained growth.

The increase in Excises is due to an expected recovery in fiscal 2005 in room occupancy and jet fuel excises. Room occupancy and jet fuel excises are expected to increase over fiscal 2004 as business and leisure travel recover. The decrease in Fines is due to a lower staffing level of parking enforcement officers in fiscal 2005. The decrease in Miscellaneous Department Revenue is due to the expected absence of various unpredictable departmental reimbursements present in fiscal 2004. The decrease in Licenses & Permits is due to expected lower building permit activity with increasing interest rates. The increase in Available Funds is due to the low amount actually used in fiscal 2004. The minor increase in State Aid is due to increases in various reimbursements. The decrease in Non-Recurring Revenue is due to the use of \$5 million less in Budgetary Fund Balance than in fiscal 2004, only the second use of this reserve since 1992. Budgetary Fund Balance is available for appropriation after certification of its value by the Department of Revenue.

Financial Statements

The City engages independent certified public accountants to audit and report on its financial statements in accordance with auditing standards generally accepted in the United States of America. An external Audit Committee, appointed by the Mayor, monitors the progress of the annual audit, reviews the recommendations of the firm and reports the Committee's activities and recommendations to the Mayor and the City Council.

The City's audited financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP"). The accounts of the City are organized on the basis of funds. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets/fund balance, revenues and expenditures/expenses. For a discussion of the significant accounting policies employed in preparing the City's fiscal 2005 audited financial statements, see Note 2 of such audited financial statements, which are attached hereto as Supplement I. The City's fiscal 2005 financial statements comply with GASB Statement No. 34, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*.

GAAP accounting differs from the "statutory" accounting or "budgetary" accounting basis prescribed by the Bureau of Accounts of the Commonwealth, for the annual budget and property tax certification process. The major differences are explained in Note 4 of the fiscal 2005 audited financial statements, attached hereto as Supplement I.

Summary and Comparison of Operating Results (GAAP Basis)—Fiscal 2001-2005

The following table is a summary of the City's General Fund operating results as derived from the City's audited financial statements for fiscal years 2001 through 2005 prepared by the City and audited by KPMG LLP, an independent certified public accounting firm, in accordance with the GAAP basis of accounting.

Summary of Statements of Revenues, Expenditures, Other Financing Sources and Changes in Fund Equity Fiscal Years 2001-2005 (GAAP Basis) (\$ in millions)*

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total revenues	\$1,692.7	\$1,801.3	\$1,794.5	\$1,824.2	1,912.7
Total expenditures	<u>1,603.9</u>	<u>1,735.1</u>	<u>1,739.9</u>	<u>1,758.8</u>	<u>1,895.4</u>
Excess of revenues over expenditures	88.8	66.2	54.6	65.4	17.3
Total other financing (uses) sources	<u>(43.0)</u>	<u>1.8</u>	<u>34.6</u>	<u>16.4</u>	<u>22.5</u>
Excess of revenues and other financing sources over expenditures and other financing uses.....	<u>45.8</u>	<u>67.9</u>	<u>89.2</u>	<u>81.8</u>	<u>39.8</u>
Fund balance, beginning of year as previously reported	<u>220.7</u>	<u>266.5</u>	<u>402.1</u>	<u>491.4</u>	<u>573.2</u>
Cumulative change in accounting principles ⁽¹⁾	—	67.7	—	—	—
Fund Balance, beginning of year as restated ..	<u>—</u>	<u>334.2</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance, end of year ⁽²⁾	<u>\$ 266.5</u>	<u>\$ 402.1</u>	<u>\$ 491.4</u>	<u>\$ 573.2</u>	<u>\$ 613.0</u>

* Columns may not add due to rounding.

(1) The cumulative change in accounting principles is the result of implementing GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

(2) The undesignated fund balances for the General Fund for fiscal 2001, 2002, 2003, 2004 and 2005 were \$182.0 million, \$345.8 million, \$331.5 million, \$377.1 million and \$415.2 million, respectively.

Source: City of Boston Auditing Department.

The following is a summary analysis of the City's financial operations on a GAAP basis over the period fiscal 2003 through fiscal 2005. The figures appearing in this section for the period are derived from the annual financial statements. The analyses of revenues and expenditures in the text that follows are stated using data derived from the audited financial statements. For an explanation of the differences between the GAAP basis and Budgetary basis of accounting, see the audited financial statements at Supplement I, Note No. 4, "Budgetary Data."

The City's major recurring revenue sources during this period were real and personal property taxes, state aid, payments in lieu of taxes ("PILOTs"), local excises and departmental revenues, and other intergovernmental sources. The principal expenditures were for public safety, debt requirements, retirement costs, and the School Department. Reference is made to Supplements I and II attached hereto for a detailed presentation of the City's financial operations.

Fiscal 2003

Modest revenue growth continued in fiscal 2002 as compared to fiscal 2001. Property Taxes increased by \$116.0 million, as a result of changes in accounting principles combined with an increase in the property tax base. Excise Taxes and Payments In Lieu of Taxes experienced a net increase of \$2.1 million in fiscal 2001. The increase between these two revenue sources was the result of increased revenues in Room Occupancy Taxes, Aircraft Fuel Excise Taxes, Other Excise Taxes, along with a decrease of \$4.3 million in revenue received from Massport. The decrease in fiscal 2002 Investment Income as compared to fiscal 2001 was the result of weaker market performance and lower interest rates yielding poorer returns on otherwise favorable cash. The Licenses and Permits decrease was due to a slowdown in building permits for commercial (i.e., office towers, hotels, etc.) and residential construction projects undertaken throughout the City. Commonwealth Distributions in fiscal 2002 fell slightly by \$.9 million or 0.2% from fiscal 2001. Departmental and Other Revenue increased by \$3.9 million or 6.7%, due to one-time receipts for prior years' reimbursements. Fines revenue increased by \$2.7 million, or 4.8%, due to increased collection efforts by the Transportation Department on parking fines and an increase in the number of violations issued by Code Enforcement.

Overall, fiscal year 2002 expenditures increased from the previous year. Spending for Public Safety increased \$32.4 million (8.7%) as compared to fiscal 2001 due to the execution of collective bargaining agreements for the current year. The increase in Public Works for collective bargaining was offset by a decrease of \$6.2 million in snow removal costs as the result of a milder winter; the overall effect being a decrease of \$2.6 million (3.4%) for Public Works. Property & Development increased \$7.4 million (18.1%) as compared to fiscal 2001 due to collective bargaining and Boston's continuing effort to support additional affordable housing programs. Schools increased \$16.3 million (2.7%) as compared to fiscal 2001 due to the Transition Program, Math Support Plan, "Focus on Children" policy, school resource allocations and collective bargaining. Other Employee Benefits' expenditures rose by \$17.2 million (19.0%) due to higher participation in Medicare and the increased cost of health insurance. Retirement costs decreased by \$2.9 million (3.5%) as compared to fiscal 2001 as a result of reimbursements from the Commonwealth Retired Teachers Pension Fund. Human Services (\$1.0 million), Parks and Recreation (\$0.7 million) and Capital Outlays (\$1.0 million) increased slightly, while the City's share of the costs of the Office of the Suffolk County Sheriff (\$1.5 million) and expenditures for Judgments and Claims (\$2.3 million) and Library (\$1.7 million) experienced decreases for fiscal 2002.

As a result of implementing GASB Statement No. 34 and other related Statements, certain fund liabilities that existed at June 30, 2001 were reduced to reflect only the portion of the liability that was "due." The impact of this change on the general fund equity was to reduce liabilities and increase fund equity at July 1, 2001 by \$67.7 million. For additional information, see "Financial Operations—Financial Statements," above.

Fiscal 2004

Revenue declined in fiscal year 2003 from fiscal year 2002. Every source of revenue declined except Real and Personal Property Taxes, Payments in Lieu of Taxes, and a slight increase in Departmental and Other Revenues. The largest dollar decline of nearly \$47.5 million occurred in Intergovernmental Distributions as the State continued to reduce aid to municipalities. The decrease in Investment Income is the result of continued weak market performance and low interest rates, yielding poor returns on otherwise favorable cash balances. Fines decreased slightly (2.3%), due partially to increased compliance after parking fine amounts increased in early fiscal year 2003. Property Taxes increased \$63.1 million, or 6.4%, reflecting the allowable 2½% increase in the levy and taxable new growth. Payments in Lieu of Taxes increased partially due to the Massachusetts Port Authority's return to a normal payment amount after reducing its payment in fiscal year 2002 and better than expected payments from Chapter 121A agreements with urban redevelopment corporations.

Overall fiscal year 2003 expenditures increased slightly from the previous year. Spending for Public Safety decreased \$11.2 million (2.7%) due to a cancellation of the new recruit class for the Police department and the reduction in the summer jobs program. The increase in Public Works of \$12.2 million or 16.3% was the direct result of increases to trash removal and disposal fees and inclement weather during

the winter months. Property & Development decreased \$19.5 million (40.0%). This was primarily due to the reclassification of resources to Human Services. Schools increased \$27.3 million (4.4%) due to the Transition Program, and collective bargaining. Other Employee Benefits expenditures rose by \$6.8 million (6.3%). This resulted from increased costs of health insurance. Retirement Costs decreased by \$7.3 million (8.9%) as a result of receiving higher than projected revenue as reimbursements for Teachers' Retirements.

"Other" expenditures increased by \$13.7 million (21.4%). This category includes a reallocation of resources to Human Services of \$18.3 million. This was due to the consolidation and transfer of services for youth and families from Community Centers, 2:00 to 6:00 After School Initiative, The Office of Community Partnerships and the Recreation Division of the Parks and Recreation Department, all now under the central control of a new department named Boston Centers for Youth and Families. Changes in this category also include slight decreases in Parks and Recreation of \$1.6 million and Library at \$1.0 million, as well as a very slight increase in Judgments and Claims (\$0.1 million) and the Suffolk County Sheriff (\$0.1 million).

The General Fund's equity balance as of June 30, 2003 was \$491.4 million, as compared to \$402.1 million in fiscal 2002. The increase is primarily due to an increase in property tax revenue.

Fiscal 2005

Revenues showed slight increases in fiscal year 2005 from fiscal year 2004. The most notable occurred in real and personal property taxes, investment income and departmental and other revenues. Property taxes increased \$55.7 million, or 5.1%, reflecting continuing increases in property values. An increase in investment income (\$9.7 million) was the result of stronger market performance and rising interest rates, yielding positive returns on the City's cash balances. Departmental and other revenues increased due primarily to additional receipts from Municipal Medicaid Reimbursement (\$2.6 million), an increase in fees of \$0.7 million and a change in GAAP accruals that comprised the balance of the increase in this category as of June 30, 2005. The overall growth in revenues represents an \$88.5 million increase or 4.9% more than fiscal 2004.

Overall, fiscal year 2005 expenditures increased over the previous year by 7.8% or \$136.6 million. The most notable increases occurred in General Government of \$27.4 million or 91.2% over fiscal 2004 expenditures, Public Safety by \$66.7 million or 17.1%, Public Works by \$19.7 million or 22.6%, Parks & Recreation by \$4.4 million or 39.5% and Schools by \$16.7 million or 2.5% over fiscal year 2004 costs. Most of these increases are attributable to settled Collective Bargaining Agreements that were all paid in fiscal 2005 and expenditures attributable due to Snow Removal. Solid financial controls over other expenditure categories allowed for the overall percentage of increase to remain moderate.

The General Fund's equity balance as of June 30, 2005 was \$613.0 million, as compared to \$573.2 million in fiscal 2004. The increase of \$39.8 million or 6.9% is primarily due to a continued steady revenue stream of various sources. Please refer to the statements of General Fund activity on pages 14 through 19 of the Basic Financial Statements (Supplement I attached hereto) and Note 2 in Notes to Basic Financial Statements for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Cash Flows

The following table represents the end-of-month unaudited cash balances for the City's General Fund commencing with fiscal 2003 and ending with the most recent month for which data is available. Prudent cash management policies have enabled the City to avoid the need for short-term borrowings for operating purposes since fiscal 1987.

The cash balances presented do not necessarily reconcile with revenue and expenditures for similar accounts calculated on a budgetary accounting basis or on a GAAP basis. In order to achieve revenue and expenditure data for a particular fiscal year, the cash flow receipts and disbursement results are subject to normal year-end closing adjustments.

General Fund End-of-Month Cash Balances for Fiscal 2003-2006

(\$ in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
July	682,030	581,902	683,229	714,211
August	713,968	652,157	723,471	788,747
September	705,532	657,697	786,818	755,123
October	694,431	682,418	771,963	788,120
November	680,607	653,917	761,412	735,438
December	658,939	596,227	636,217	
January	412,265	567,665	693,799	
February	533,376	614,063	727,636	
March	498,945	581,150	686,182	
April	554,653	633,748	686,583	
May	563,193	648,230	743,488	
June	571,334	718,903	788,497	

Source: City of Boston Treasury Department.

Financial Administration

Pursuant to state law mandates and policy initiatives, the City has established a system of internal management controls. These controls are designed to maximize revenue collections, monitor operating and capital spending, evaluate infrastructure needs, and enhance the City's internal procedures. Major components of the City's system of financial management controls include:

Revenue Collections

The City has maximized the effectiveness of its revenue collection efforts by implementing a comprehensive accounts receivable management program that coordinates the collection of departmental revenues. The City has also implemented new payment options, including the payment of parking tickets and excise taxes online, and the payment of property taxes and departmental receivables, such as licenses, permits, fees, and fines, with credit and debit cards. The City secures its statutory lien for delinquent real estate taxes with instruments recorded at the Suffolk County Registry of Deeds ("tax takings"). For more information concerning tax takings and the collection of delinquent real estate taxes, see "City Revenues—Property Taxes—Delinquent Taxes and Tax Title."

Debt Management

The City uses a comprehensive, interactive debt capacity model that assists debt management administrators in evaluating the potential impact of debt issues on cash flow, credit and statutory debt capacity.

The Treasury Department manages all City borrowings. The Treasury Department focuses on the timing of borrowings to take advantage of favorable market conditions and manages the City's cash flows to help obviate the need for short-term borrowings for operating purposes. The Treasury Department has established a series of debt management guidelines that direct the City's approach toward its debt management activities including rapid debt repayment, the use of a debt capacity model for establishing debt affordability, limitations on the level of variable rate debt the City will employ, maintenance of the relationship between debt and repayment sources, target savings for refundings, and reporting and liaison with the financial community and the rating agencies.

Financial Management

Financial management is supported through the use of the Boston Administrative Information Systems (BAIS). BAIS is an integrated financial and human resources management system that is designed to track and control daily activities and report the financial position of the City. BAIS performs the specialized functions of encumbrance control, budget control, position management, payroll allotment reporting, fund accounting, and capital project and grant management. Real time edits prohibit excessive commitments and overspending, while on-line access to information, including monthly revenue and expenditure reports, allows department managers to evaluate directly the financial status of individual programs and the entire department. The utilization of these systems support the rigorous monitoring and reporting requirements enforced by the City.

The City of Boston has consistently received unqualified opinions on the audit of its Basic Financial Statements and has been presented with a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its Comprehensive Annual Financial Report.

Investment Policy

The City has enacted and annually reviews and updates its investment policy statement that dictates the types of investments made by the City Treasury. The policy also focuses on the appropriate balance of liquidity and the rate of return on investments. Bond proceeds, in conformance with the City's policy, are invested in highly liquid, fully collateralized investments.

Program Evaluation

The City's Improving Management Program focuses on evaluating City programs and services. This program encourages organizational changes or operational improvements that increase the effectiveness or productivity of City departments. The program provides reliable, objective and independent information to City managers about department performance and operations, assists in reviewing the effectiveness of service delivery, and identifies the extent to which programs overlap or duplicate one another.

Risk Management

The City of Boston's Risk Management Program focuses on a planned strategy of self-insurance supported by strong prevention and cost reduction efforts, financial reserves and catastrophic insurance.

The citywide program first focuses on limiting unnecessary asset losses due, for example, to third party legal liability claims, property losses, workplace injuries, employee healthcare and unemployment compensation. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations. Assets and losses are tracked and quantified and areas are targeted for improvement efforts.

The City budgets and funds for the costs described above through the general fund, except for self-insured healthcare costs, which are managed by Blue Cross Blue Shield, and financed through an employee/employer trust fund established in compliance with Section 3A of Chapter 32B of the General Laws.

To protect the City's assets from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$65 million all risk protection after a \$10 million deductible; boiler and machinery losses are insured up to \$2.5 million, and 70% of the City's healthcare costs are insured through HMOs.

For unexpected large losses, the City has been continually building a catastrophic risk reserve, the available balance of which equaled \$10 million at the end of fiscal 2005.

CITY REVENUES

The principal sources of City revenue available to meet operating expenditures are Property Taxes, State Aid, Excise Revenues, Departmental Revenues, and Federal and State Grants, all of which are described below. Except as specifically noted, all amounts are stated on a budgetary accounting basis. References to fiscal 2006 are unaudited.

Property Taxes

Real and personal property taxes are the largest single source of the City's revenue. The City's gross property tax levy for fiscal 2006 equals \$__ billion, or __% of City General Fund revenues for such period. Approximately 53.0% of the land area in the City is tax-exempt. Certain properties are subject to arrangements that suspend the imposition of real property taxes at normal rates in order to encourage development. See "City Revenues—Property Taxes—Revenues from Chapter 121A Properties" below.

As discussed below, Proposition 2½ limits the level of property taxation in the City. In fiscal 2006, the City will again levy taxes below the 2.5% ceiling on the overall effective tax rate. The continued growth in the real estate market suggests that the City will not reach the levy ceiling in the foreseeable future.

Proposition 2½

Proposition 2½ is a statewide tax limitation subject to amendment or repeal by the legislature that imposes two separate limits on the annual tax levy of a city or town.

The primary limitation of Proposition 2½ is that the property tax levy in any city or town in the Commonwealth cannot exceed 2.5% of the full and fair cash valuation of the taxable real estate and personal property in that city or town (the "2½ ceiling"). The only exception is the temporary exclusion of debt service or capital costs from the levy ceiling restrictions, as described below.

Within the limits of the 2½ ceiling, a secondary limitation imposed by Proposition 2½ (the “growth limit”) prohibits any levy in a fiscal year from exceeding the preceding year’s maximum allowable tax levy by more than 2.5%, subject to exceptions for the following: property newly added to the tax rolls and valuation increases other than as a result of a general revaluation (“new growth”); temporary exclusions from the tax levy limitation to pay for capital costs or debt service on indebtedness; and “overrides,” which are permanent increases in the tax levy for general expenditures of the city or town. Exclusions and overrides must be approved by a referendum of the voters of the city or town. The levy is permanently increased by the addition of new growth and overrides, except that any override to fund a stabilization fund will not be taken into account in calculating the maximum levy limit in subsequent fiscal years unless the City Council votes to appropriate such increased amount in such subsequent year to the stabilization fund. The exclusion of debt service by referendum temporarily increases the levy amount and the duration of the specific debt excluded. The growth limit may be exceeded by an override in any year by a majority vote of the voters. An increase in the growth limit under this procedure, however, does not permit a tax levy in excess of the 2½ ceiling, since the two limitations apply independently. The applicable tax limits may also be reduced in any year by a majority vote of the voters. The City’s gross levy in fiscal 2006 equals \$ billion. In fiscal 2006, the allowable 2.5% increase is \$27.8 million, and “new growth” is \$28.5 million.

In order to mitigate its adverse impact on local government revenues, Proposition 2½ limits the annual rate of increase of aggregate, statewide assessments made upon cities and towns by the Commonwealth and certain of its governmental entities, such as assessments made upon the City and certain other cities and towns for the Massachusetts Bay Transportation Authority (“MBTA”), to 2.5% of the prior year’s assessment. The MBTA assessments on the City equaled \$64.6 million, \$65.1 million, and \$65.2 million, respectively, in fiscal 2004, 2005 and 2006.

Proposition 2½ also limits the motor vehicle excise tax rate to 2.5%. The City’s net receipts from the motor vehicle excise tax equaled \$45.6 million, \$33.1 million and \$44.7 million, respectively, in fiscal 2003, 2004 and 2005. The City’s estimated motor vehicle excise revenue for fiscal year 2006 is \$ million.

The City’s Bond Procedure Act of 1983 mandates assessment of taxes in excess of the Proposition 2½ levy limits to the extent that the debt service on City obligations is not otherwise provided for in the tax levy or from other sources, with no allowance made for any other expenditures of the City. See “City Indebtedness—Classification of City Debt.”

Proposition 2½ Property Tax Levy Limits, Fiscal 2002-2006⁽¹⁾
(\$ in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total Assessed Valuation	\$54,189,508	\$57,533,345	\$66,141,730	\$69,253,528	
Growth Levy Limit	972,449	1,035,297	1,094,069	1,149,230	
Levy Ceiling	1,354,738	1,438,334	1,653,543	1,731,338	
Tax Levy ⁽²⁾	972,234	1,035,271	1,093,937	1,148,742	
Under Levy Ceiling	382,504	403,063	559,606	582,596	

(1) Represents amounts assessed on January 1, and subsequently certified by the Commonwealth’s Department of Revenue in December of each fiscal year and does not include Omitted Assessments.

(2) For each fiscal year, the amount of the actual tax levy is the largest amount possible. The levy limit would be exceeded if the tax rate were raised an additional cent (\$0.01).

Source: City of Boston Assessing Department

Revaluation

State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between the revaluations, the Commonwealth permits municipalities to establish new values on the basis of market changes, using the most recent revaluation as a basis. The City has adjusted certified property values in accordance with this procedure in years when market conditions indicated such adjustment was necessary.

The City concluded work on its eighth three-year revaluation in February 2004. The eighth revaluation showed an unusual trend in the real estate market: while residential real estate values increased considerably, values for business properties decreased. Vacancy rates in the downtown office market increased, commercial lease rates declined, and the demand for hotel rooms remained below historical levels. Although this change in value did not affect the aggregate amount of the City's property tax levy, the increase in residential values and the decline in business real estate values resulted in more of the total tax levy being paid by residential taxpayers. The extent of the increase in the share of the total tax levy borne by residential property owners was mitigated under recently adopted legislation that temporarily increased the limit on the portion of the tax levy that may be shifted from residential properties to business properties. See "City Revenues—Property Taxation—Taxation by Use; Tax Rates."

Certified Triennial Revaluations

<u>Assessment Date</u>	<u>Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 2003	\$66.14 billion	fiscal 2004 through 2006
January 1, 2000	50.49 billion	fiscal 2001 through 2003
January 1, 1997	33.76 billion	fiscal 1998 through 2000
January 1, 1994	28.12 billion	fiscal 1995 through 1997

Source: City of Boston Assessing Department

Taxation by Use; Tax Rates

The property tax base in the City consists of personal property and classes of real estate. The following table shows the classes of taxable real property assessed as of January 1, 200⁵. The fiscal 200⁶ tax rates were applied to the January 1, 200⁵ valuation to determine levy and tax liability for fiscal 200⁶.

Assessed Valuation of Taxable Real Property by Real Estate Classes, Assessment Dated January 1, 200⁵

<u>Real Estate Classes</u>	<u>Land Area (Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments	30,434,714	\$1,029,519,186	\$2,674,868,782	\$3,704,387,968
Agricultural	546,757	55,100	136,900	192,000
Commercial	76,186,481	3,894,680,769	11,798,045,381	15,692,726,150
Commercial Condominium	6,708,234	160,800	885,691,200	885,852,000
Residential Condominium	43,219,706	22,500	15,114,542,147	15,114,564,647
Commercial Land	31,474,356	473,531,122	283,925,909	757,457,031
Condominium Main ⁽¹⁾	38,406,878	—	—	—
Condominium Parking	243,225	1,003,300	32,518,700	33,522,000
Industrial	48,345,057	513,288,158	615,212,980	1,128,501,138
Residential & Commercial	14,606,516	762,774,638	2,037,192,100	2,799,966,738
Residential Land	35,612,771	172,508,320	30,711,623	203,219,943
1-Family	155,365,411	2,532,853,051	7,941,734,879	10,474,587,930
2-Family	88,955,717	1,452,840,364	5,639,452,392	7,092,292,756
3-Family	57,677,044	1,068,842,613	5,466,158,492	6,535,001,105
4-Family (4-6 units)	10,525,426	483,601,053	1,214,388,601	1,697,989,654
Total		<u>\$12,385,680,974</u>	<u>\$53,734,580,086</u>	<u>\$66,120,261,060</u>

(1) Condominium Main represents the total land area of all residential and commercial condominiums and condominium-parking units.

Source: City of Boston Assessing Department.

Tax Rates, Fiscal 2002-2006
(per \$1,000 of assessed value)

Fiscal Year	Commercial, Industrial and Personal Property	Residential Property
2006.....	\$	\$
2005.....	32.68	10.73
2004.....	33.08	10.15
2003.....	31.49	11.29
2002.....	30.33	11.01

Source: City of Boston Assessing Department.

The City has three classes of property for taxation purposes: (i) residential real property, (ii) open space land, and (iii) commercial, industrial and personal property. The City has utilized this classification in adopting its fiscal 1983 through fiscal 2006 tax rates. Within limits under state law, the City may determine the share of the annual levy to be borne by each of the three categories. As a result of the new legislation described above, the increase in the amount of the tax levy that may be shifted to business properties allows the City to limit the increase in residential property taxes resulting from the relative increase in residential property values as compared with business property values. The legislation contains a schedule that brings the taxable valuation limit for commercial, industrial and personal property back to 170% of its share of the total taxable value over the remaining four years.

The City may also exempt a portion of the assessed valuation of residential real property when used as the taxpayer's principal residence. The amount of the residential exemption can equal up to 30% of the average assessed value of all residential property in the City. In fiscal 2006, qualifying residents who receive the residential exemption have their taxable assessed values reduced by \$ _____. The residential exemption has no impact on the overall tax rate.

Tax Base

The following table shows, for purposes of year-to-year comparison, the assessed valuations with respect to all property in the City subject to taxation, used for determining the tax levies and tax rates in fiscal years 2002 through 2006.

Assessed Valuations—Fiscal Years 2002-2006⁽¹⁾
(\$ in thousands)*

Fiscal Years	Value of Taxable Land	Value of Taxable Buildings	Total Value Taxable Land and Buildings	Value of Taxable Personal Property	Total Assessed Taxable Value
2006.....					
2005.....	12,385,681	53,734,580	66,120,261	3,133,267	69,253,528
2004.....	12,336,679	50,381,046	62,717,725	3,424,025	66,141,750
2003.....	11,201,851	43,188,916	54,390,766	3,142,579	57,533,345
2002.....	11,080,453	40,219,239	51,299,693	2,889,815	54,189,508

* Rows may not add due to rounding.

(1) Represents assessed values determined as of January 1 in the prior fiscal year. For example, fiscal 2005 assessed values are as of January 1, 2004.

Source: City of Boston Assessing Department

The following table is a list of all of the taxpayers in the City that had an aggregate tax liability in excess of \$10.0 million for fiscal 2006. Assessed valuations and fiscal 2006 taxes reflect the valuation of property as of January 1, 2005 and the tax liability using applicable tax rates.

Largest Taxpayers: City of Boston, Fiscal 2006⁽¹⁾

Name	Personal Property ⁽²⁾	Real Property	Total Assessed Value	Fiscal 2005 Tax Liability
Equity Office Properties	\$ 705,080	\$1,935,664,500	\$1,936,369,580	\$63,275,088
NStar / Boston Edison Company	1,265,386,210	69,628,500	1,335,014,710	43,628,281
Boston Properties	3,513,710	933,757,208	937,270,918	30,630,014
Beacon Properties	242,890	842,112,800	842,355,690	27,528,184
Brookfield Properties Corporation	232,780	551,409,500	551,642,280	18,027,670
Fort Hill Associates	—	538,875,000	538,875,000	17,610,435
TST One Twenty Five High Street	124,790	442,286,500	442,411,290	14,458,001
UIDC of Massachusetts, Inc.	—	401,682,500	401,682,500	13,421,104
One Hundred Federal Street, LPS	—	333,251,500	333,251,500	10,890,659
American Financial Realty Trust	—	327,318,501	327,318,501	10,696,769
Dewey Square Tower Associates	497,750	319,405,500	319,903,250	10,454,438

- (1) The methodology used in creating the table involves the search of the titleholder, or holders, of all major parcels of property in the City. This methodology does not necessarily locate all parcels owned by affiliates, nor does it show the percentage share of ownership in a particular parcel.
- (2) Pursuant to Chapter 59 of the General Laws, Section 4, personal property consists of movable physical items not permanently attached to real estate. Many items of personal property are exempt from taxation in Massachusetts. There are three general types of personal property that are taxable: business and professional furnishings; household furnishings in property other than the principal residence (for example, a summer house), and personal property of public utilities.

Source: City of Boston Assessing and Treasury Departments.

Real Estate Tax Levies and Collections

The following table shows the level of property tax levies, tax levies net of budgeted reserves for abatements (“Net % Gross”), the gross amount and proportion of each levy collected during the year of levy, the cumulative amount (net of refunds) and proportion of each levy collected as of June 30, 2004 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 2000 through 2004. Excluded from the following table are receipts from PILOTs and receipts on account of Chapter 121A corporations.

Tax Collections In Relation To Property Tax Levies Fiscal 2001-2005
(Statutory Accounting Basis)
(\$ in millions)

Fiscal Year	Tax Levy			Tax Levy Collected Within Year of Levy			Tax Levy Net of Refunds Collected as of June 30, 2004			All Taxes Collected In Fiscal Year ⁽¹⁾
			Net % Gross			% Gross	% Net			
	Gross ⁽²⁾	Net		Gross Amount	Gross Levy			Net Levy	Net Amount	Gross Levy
2005.....	\$1,150.1	\$1,105.2	96.1%	\$1,142.1	99.3%	103.3%	\$1,134.4	98.6%	102.6%	\$1,134.4
2004.....	1,094.2	1,052.0	96.2	1,083.9	99.1	103.0	1,079.0	98.6	102.6	1,081.6
2003.....	1,035.9	993.0	95.9	1,019.7	98.4	102.7	1,016.2	98.1	102.3	1,020.7
2002.....	972.7	932.4	95.9	963.7	99.1	103.4	958.9	98.6	102.8	961.7
2001.....	915.8	874.0	95.4	909.0	99.3	104.0	902.9	98.6	103.3	904.2

(1) Represents the total amount of current fiscal year levy collected during year of assessment.

(2) Includes Omitted Assessments billed in June of each fiscal year, as well as subsequently reduced residential exemptions.

Source: City of Boston Treasury Department.

The City's property tax bills are mailed quarterly in July, October, December, and April. The bills mailed in July and October represent preliminary tax bills each equal to one quarter of the previous fiscal year's liability. The fair cash value of the property or assessment for the purpose of determining the new fiscal year tax liability is reflected in the third and fourth quarter bills, which are mailed in December and April. See "City Revenues—Property Taxes—Taxation by Use; Tax Rates."

Delinquent Taxes and Tax Titles

Real and personal property taxes (not including motor vehicle, the room occupancy and the aircraft fuel excises) are based on values established by the Assessing Department as of each January 1 and, beginning in fiscal 1992, are due in quarterly payments every August, November, February and May. Delinquent real estate and personal property taxes are subject to a 14% per annum interest charge. Subsequent to the end of the fiscal year in which real estate taxes become delinquent, the City secures its lien for such taxes by taking legal title to all delinquent properties, subject to the owners' right of redemption. After this process, known as a "tax taking," is complete, interest accrues on outstanding amounts of delinquent real estate taxes at the rate of 16% per annum. If the taxes remain unpaid for a period of six months from the tax taking, the City may petition the Land Court to foreclose the equity owner's right of redemption. Upon foreclosure, the City may then sell the property in order to liquidate the tax liability. The City estimates that the value of the properties to which such tax titles are attached is substantially less than the amount of delinquent taxes, charges, and interest owed.

Tax title receipts were approximately \$13.5 million, \$13.7 million and \$16.1 million, respectively, in fiscal 2002, 2003, and 2004.

Revenues from Chapter 121A Corporations

A local government in cooperation with its redevelopment authorities may suspend the imposition of real property taxes at normal levels on properties determined to be "blighted" in order to encourage redevelopment of such properties by special corporations organized under Chapter 121A ("Chapter 121A Corporations"). The City receives three forms of revenue from Chapter 121A Corporations. The first consists of excise PILOTs for each Chapter 121A Corporation that are collected by the Commonwealth and distributed to the City. The second form of revenue is contract payments resulting from agreements that may be entered into between the Chapter 121A Corporation and the City relating to City services available to the development. A third form of revenue does not generate significant payments.

Revenue received by the City from Chapter 121A Corporations for the last three fiscal years are shown in the following table:

Revenues To The City From Chapter 121A Corporations
(\$ in thousands)

Fiscal Year Ended June 30	Excise Payments In Lieu Of Taxes (Section 10)	Contracts Payments (Section 6A) ⁽¹⁾	Total
2005.....	\$36,142.4	\$18,770.0	\$54,912.4
2004.....	34,702.7	20,104.7	54,807.4
2003.....	35,280.4	18,826.8	54,107.2

(1) Contract Payments (Section 6A) include Chapter 121B, Section 16 payments.

Source: Office of Budget Management

State Aid

State aid is the second largest revenue source to the City's General Fund, and had increased every year between fiscal 1993 and fiscal 2002. In fiscal 2003 and 2004, however, state aid decreased a total of \$62.9 million, or 12.0%, from the amount received in fiscal 2002. It is expected that state aid received by the City for fiscal 2005 will increase slightly by \$2.2 million to \$462.0 million, a 0.5% increase from the amount received in fiscal 2004.

The level of state aid distribution to the City in any given year is dependent on a number of factors, including the current outlook on the balancing of revenues and expenditures in the state budget, the output of various formulas which determine the level of some but not all state aid, and the policy priorities of the state legislature and the Governor.

Over the past several years, mostly due to the national recession, the state developed a sizeable structural deficit between revenues and expenditures. Several billion dollars in cost reduction measures were undertaken as well as halting some tax cuts and increasing other taxes in order to reduce this deficit. Local aid to cities and towns was not excluded from these cuts.

Among the City's major aid categories of Additional Assistance, Lottery and Chapter 70 education aid, Additional Assistance was reduced the most. This source of aid, a mechanism to increase equity in aid between poorer and richer communities, had been level-funded statewide since fiscal 1992 until it was reduced in fiscal 2003. Boston lost \$31.5 million or 15.3% in this first reduction and another \$10.9 million or 6.2% with a further reduction in fiscal 2004. Additional Assistance is level-funded in fiscal 2005.

State Lottery aid to municipalities had been capped between fiscal 1995 and fiscal 2000. With the cap removed, Boston received nearly \$71 million in fiscal 2001. Lottery aid was reduced in fiscal 2003 and fiscal 2004, and is now capped again through 2011. Boston received reductions in Lottery aid of \$5.9 million or 9.4% and \$3.6 million or 6.2% in the reductions mentioned above and is level-funded in fiscal 2005.

The City received education aid increases as part of the Education Reform Act of 1993 that equaled \$7.9 million, \$11.4 million, and \$8.1 million, respectively, in fiscal years 2000, 2001, and 2002. Boston received no increase in education aid in fiscal 2003, a decrease of \$5.2 million in fiscal 2004 and level-funded aid in fiscal 2005. A key component of the Commonwealth's education reform effort was the Charter School program - public schools administered independently from local school committee and teacher union rules and regulations, and Horace Mann Charter schools, which have their charters and budgets approved by local school committees. By law, cities and towns are to be reimbursed 100%, 60%, 40% and 0% of the increases in costs of charter school tuition over a four-year period, however, the line-item funding of this reimbursement in the fiscal 2003 state budget was vetoed by the governor and no funds were available that fiscal year. In fiscal 2004 only \$3.1 million was paid to the City for this item versus \$36.7 million the City paid in tuition. In fiscal 2005, \$11.2 million in tuition reimbursement and a new \$3.6 million in capital facility reimbursement are budgeted to be received by the City versus nearly \$47 million to be paid out by the City in tuition.

In 1993, the Massachusetts Supreme Judicial Court found that the Commonwealth has an enforceable constitutional obligation to provide an adequate public education and that, at that time, the Commonwealth was not fulfilling its obligation. Promptly thereafter the state legislature adopted the Education Reform Act of 1993 which, among other things, increased funding levels and changed allocation formulas for state school aid. In 1999, the litigation was reinstituted by a number of municipalities challenging the adequacy of the public education being provided by the Commonwealth and seeking,

among other things, additional state aid for their schools. Pursuant to a fact finding trial, the Superior Court recently issued a report to the Supreme Judicial Court which, among other things, concludes that the Commonwealth is not satisfying its constitutional obligation with respect to certain municipal school systems and recommends that the Court order the Commonwealth to provide funding necessary to pay for an adequate education in such municipalities. The case is currently pending before the Supreme Judicial Court.

In addition to direct state aid, the City also receives a reimbursement for the cost of teachers' pensions. Teachers' pensions are paid directly by the State Teachers Retirement System for all teacher retirees in the state other than those who retire from the Boston school system. In their case, pensions are paid by the State-Boston Retirement System, funded by the City, and the City is reimbursed by the Commonwealth on an actual pension payout basis. The City received \$45.3 million, \$53.7 million, and \$61.4 million, respectively, in fiscal 2002, 2003, and 2004. The City also receives, subject to annual appropriation by the state legislature, cost of living adjustments approved prior to fiscal 1998 by the legislature for municipal employees. The City expects to receive approximately \$61.4 million in fiscal 2005. See "The City—Retirement Systems."

The State Treasurer is empowered to deduct from state aid amounts appropriated to the City the amount of the City's MBTA assessment (\$63.9 million, \$64.6 million, and \$65.1 million, in fiscal 2003, 2004 and 2005 respectively), any debt service paid by the Commonwealth on "qualified bonds" of the City, and any sums allocable to the Boston Water and Sewer Commission or the City that are due and unpaid on debt issued to the Massachusetts Water Pollution Abatement Trust. Moreover, under the Massachusetts Constitution and state finance law, the state Treasurer has the authority to delay the allotment of state aid appropriations under certain circumstances. In addition, the statute governing the Commonwealth distribution of school aid (which constitutes a portion of the state aid distribution) provides that such payments are due only to the extent that sufficient funds are available. Since June 1990, state distributions have been made quarterly and on a timely basis.

State School Building Assistance

Under its school building assistance program, the Commonwealth provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds. Approved project costs included the interest expense incurred on debt issued by a municipality to finance the school project. In recent years, demand for school building assistance grants far exceeded available funds. As of July 1, 2004, a total of 425 projects for which completed grant applications had been submitted were still on the Department of Education's project priority list awaiting approval of a grant.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The City currently has approximately \$62.4 million of bonds outstanding for school projects approved for grants under the prior law at a reimbursement rate of 90% of approved project costs. It is expected that the Authority will continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on the related bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. The Authority expects to pay grants for all of the projects on the priority waiting list by the end of fiscal year 2008. Grants for such projects are expected to be paid in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and

interest on temporary debt until receipt of the grant, shall be included in the approved costs of such projects.

The City currently has four projects on the priority waiting list aggregating approximately \$148.0 million in project costs. Each of the projects is a grandfathered, desegregation project for which the City is entitled to be reimbursed for 90% of the eligible project costs. Prior to July 1, 2004, the City issued \$25 million of bonds and \$96 million of bond anticipation notes to finance three of these projects. See “City Indebtedness—General Obligation Debt—Short-Term Borrowings.” The \$96 million notes mature in February 2006. Prior to that date, it is expected that the City will receive a lump-sum payment from the Authority of all or a significant portion of the grants for these projects. The City expects to issue renewal notes or bonds to finance any portion of the notes maturing in February 2006 that are not paid from such grant amounts.

Grant applications for new projects may not be submitted to the Authority until July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. Prior to that date, the Authority is required to engage in a comprehensive review of the school building assistance program, to recommend legislative changes, to adopt new maximum eligible cost and size standards, and to promulgate new regulations. The Authority expects to pay grants for such projects in lump sum payments as project costs are incurred. None of the interest expense incurred on debt issued by municipalities to finance new projects will be included in the approved project costs eligible for reimbursement.

Excise Revenues

In addition to the major sources of revenue described above, the City receives various other types of revenues. See “Financial Operations—Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2001-2005” above. The following is a description of significant excise revenue sources of the City.

Room Occupancy Excise

The City currently has in effect a 4% local room occupancy excise upon the transfer of occupancy of any room in a hotel, lodging house or motel. The Commonwealth collects this tax and distributes it to the City quarterly. The City’s room occupancy excise receipts totaled \$23.3 million, \$23.8 million, and 28.0 million, respectively, in fiscal 2003, 2004 and 2005.

Pursuant to Chapter 152 of the Acts of 1997, as amended (the “Convention Center Act”), the City has established the City of Boston Room Occupancy Excise Fund (the “Excise Fund”) to provide for the payment of the principal of and interest on indebtedness issued by the City to fund the City’s share of costs of the Boston Convention and Exhibition Center Project (the “BCEC Project”). See “City Indebtedness—Special Obligation Debt.”

Of the \$28.0 million in room occupancy excise taxes collected in fiscal 2005, \$10.0 million was retained in the Excise Fund, and \$18.0 million was transferred into the General Fund as authorized by the Convention Center Act. In fiscal 2004 \$6.8 million of the \$23.8 million in room occupancy excise taxes collected was retained in the Excise Fund and \$17.0 million was transferred into the General Fund. In fiscal 2003, \$5.3 million of the \$23.3 million in room occupancy excise taxes collected was retained in the Excise Fund and \$18.0 million was transferred into the General Fund.

Aircraft Fuel Excise

The City also assesses an aircraft fuel excise upon the sale or use of jet fuel. The Commonwealth collects this tax and distributes it to the City quarterly; a change from semi-annually made to begin in fiscal 2004. The City’s aircraft fuel excise receipts totaled \$16.2 million, \$18.8 million and \$8.5 million, respectively, in fiscal 2002, 2003, and 2004. It should be noted that in fiscal 2003 the City received three semi-annual payments of aircraft fuel excise, and in fiscal 2004 the City received three of four quarterly excise payments. See “Summary and Comparison of Operating Budgets—Fiscal 2005—Revenues.”

Motor Vehicle Excise

The Commonwealth assesses an excise on the registration of motor vehicles, the proceeds of which are received by the municipality of residence of the registered owner. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. The City’s annual motor vehicle excise receipts totaled \$42.8 million, \$45.6 million, and \$33.1 million, respectively, in fiscal 2002, 2003 and 2004. See “Summary and Comparison of Operating Budgets—Fiscal 2005—Revenues.”

Vehicular Rental Surcharge

The Commonwealth imposes a \$10 surcharge on each vehicular rental transaction contract in the City. One dollar of each surcharge is paid to the City for deposit in the City's Excise Fund for application to the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the BCEC Project. The City's cumulative share of the surcharge as of June 30, 2005 was approximately \$7.7 million. See "City Indebtedness – Special Obligation Debt."

Departmental Revenues

Several City departments generate significant revenues from fees and charges.

Parking Fines

The City's annual parking fine receipts totaled \$56.5, million, \$55.3 million and \$63.1 million, respectively, in fiscal 2002, 2003, and 2004. The increase in fiscal 2004 is due to increased fine rates and meter hours along with increased weekend enforcement operations.

Building Permit Fees

The Inspectional Services Department performs a variety of functions, such as the granting of building permits, for which fees are imposed. The City's annual building permit fees totaled \$19.1 million, \$20.1 million, and \$22.7 million, respectively, in fiscal 2002, 2003 and 2004.

Municipal Medicaid Reimbursement

The Office of Budget Management oversees a vendor contract to collect federal reimbursements for Medicaid eligible services provided through the Boston Public Schools. The City's annual municipal Medicaid reimbursement revenue totaled \$16.6 million, \$17.6 million, and \$11.6 million, respectively, in fiscal 2002, 2003, and 2004.

Other

Leased Parking Facility Revenues; Sale of Surplus Properties Revenues

Pursuant to lease agreements between the City and various private parking operators, the City receives rentals from leased parking facilities. Twenty percent of these receipts are designated by statute for maintenance and renovation of the parking facilities. The remaining amount goes into the City's General Fund. During fiscal 2003 and 2004, \$1.8 million and \$1.5 million respectively, were deposited into the City's General Fund from this source. There were no deposits made to this account for fiscal 2005.

Under state law, proceeds of the sale of City facilities must be applied to the Surplus Property Disposition Fund to be used to finance capital projects, unless the City Council, with the approval of the Mayor, votes to credit to the General Fund the difference between the sale proceeds and the amount of debt (both principal and interest) incurred in acquiring or improving the sold facility. As of June 30, 2005 there was \$43.7 million remaining in the Surplus Property Disposition Fund.

Grants

The City receives both federal and state grant funds, some of which are determined according to formulas, and others that are awarded competitively. These monies are recorded in special revenue funds.

Federal Grants

Some major sources of federal grant funds in fiscal 2005 included: the Community Development Block Grant (CDBG) entitlement program award of \$29.4 million; the Shelter Plus Care Grant award of \$19.1 million; the Home Investment Partnership Program (HOME) award of \$9.9 million; the Lead Hazard Demonstration Grant award of \$4.0 million; and the Housing Opportunities for Persons with AIDS Program (HOPWA) award of \$1.8 million. The Boston Public Schools major programs included: The Title I Elementary & Secondary Education Act of 1965 award of \$43.3 million; Special Education Entitlement Grant awards of \$19.3 million; and the School Lunch Program awards of \$22.7 million. The Boston Public Schools were also awarded \$33.6 million from a variety of other federal grants sources during the 2005 fiscal year. Homeland Security grant awards totaled \$9.6 million.

State Grants

In addition to State Aid, the City receives state grants. The Commonwealth assumes 100% of the capital costs and funds approximately 95% of the operating costs associated with the Office of the Sheriff of Suffolk County, an award totaling \$82.3 million in fiscal 2005. The Boston Public Schools were awarded approximately \$29.3 million. The three major programs supported by the state education grants are the Special Education Student 50/50 Program totaling \$14.6 million, the Community Partnership Grants totaling \$9.6 million and the Quality Full-Day Kindergarten Grant totaling \$2.5 million.

CITY INDEBTEDNESS

Classification of City Debt

Direct general obligation debt of the City is debt for which the City's full faith and credit are pledged and for the payment of which all taxable property in the City is subject to ad valorem taxation without limit as to rate or amount. General obligation bonds of the City may also be secured in certain circumstances by a pledge of specific City revenues. The special obligation debt of the City is debt, which may be secured solely by a pledge of specific revenues derived from a revenue-producing facility of the City or for the payment of which the City's obligation is subject to annual appropriation.

General Obligation Debt

On June 30, 2005, the City had outstanding approximately \$846.3 million of general obligation long-term bonds, all of which bear fixed rates of interest. On January 1, 2006, the City had approximately \$808.7 million of bonds outstanding, and had \$96.0 million of general obligation bond anticipation notes outstanding to support school construction projects.

The City is authorized to secure any of its general obligation indebtedness by a pledge of all or any part of any revenues of the City including, without limitation, any tax, such as real property taxes, any fees payable to or for the account of the City, and certain receipts, distributions and reimbursements held or to be received by the City from the Commonwealth. The City currently has no general obligation bonds or notes outstanding secured by such a pledge.

Debt Limits

All debt of the City requires the authorization of the City Council and approval of the Mayor. If the Mayor vetoes a loan order passed by the City Council, the charter of the City provides that the loan order is void and may not be passed over the Mayor's veto. Authorization of bonds under a loan order of the City Council includes, unless otherwise provided, the authorization to issue temporary notes in anticipation of such bonds.

The statutory debt limit for the City consists of a debt limit and a double debt limit. The debt limit is 5%, and the double debt limit is 10%, of the valuation of taxable property in the City as last equalized by the state Department of Revenue. The equalized valuation of taxable property in the City established by the Commissioner of Revenue in January 2005 for use until January 2007 equals \$76.28 billion. Based on the current equalized valuation, the City's debt limit equals approximately \$3.81 billion, and its double debt limit equals \$7.63 billion.

The City may authorize debt up to its debt limit without state approval. The City may authorize debt over the debt limit up to the double debt limit with the approval of the Municipal Finance Oversight Board, composed of the State Treasurer and Receiver General, the State Auditor, the Attorney General and the Director of Accounts. As of June 30, 2005, the City had outstanding debt of \$587.6 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$419.8 million. In addition, as of January 1, 2006, the City had outstanding debt of \$561.3 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$536.2 million. Based on the City's current debt limit of \$3.81 billion, the City had the capacity to authorize an additional \$2.72 billion of debt as of January 1, 2006.

Debt Incurring Capacity
As of January 1, 2006
(\$ in thousands)

	<u>Debt Limit</u>
Normal Debt Limit as of June 30, 2005 ⁽¹⁾	\$3,814,054
Debt Outstanding as of June 30, 2005	(587,627)
Debt Authorized but Unissued as of June 30, 2005	<u>(419,802)</u>
Available Capacity under Debt Limit as of June 30, 2005	<u>2,806,625</u>
New Debt Authorizations approved in fiscal year 2006.....	(116,426)
Other Principal Paid through January 1, 2006	26,281
Available Capacity under Debt Limit as of January 1, 2006.....	<u><u>\$2,716,480</u></u>

- (1) The laws of the Commonwealth of Massachusetts provide for general debt limits for the City, consisting of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit is 5% of the assessed valuation of taxable property in the City as last equalized by the State Department of Revenue, and may authorize debt up to this limit without state approval. The City can also authorize debt up to twice this amount (the Double Debt Limit) with approval of the State Municipal Finance Oversight Board.

Source: City of Boston Auditing Department.

There are many categories of general obligation debt, which are not subject to the debt limit and are therefore not included in the Debt Incurring Capacity table above. Some such debt is, however, subject to other debt limits, dollar limitations or state approval. As of January 1, 2006, the City had outstanding long-term debt exempt from the debt limit of \$247.3 million (excluding the Bonds), and authorized but unissued long-term debt exempt from the debt limit of \$165.3 million. Final unaudited numbers as of January 1, 2006 include, as part of the debt figures above which are exempt from the debt limit, the following: the Gardner St. Landfill – \$10.6 million, the EDIC – \$4.3 million, the Boston Redevelopment Authority (“BRA”) – \$24.1 million, the Capital Improvements Act of 1966 – \$0.1 million, the Capital Improvements Act of 1973 - \$7.8 million, the Capital Improvements Act of 1991 – \$74.5 million, the Capital Improvements Act of 1996 – \$66.7 million, and the School Project Loan Act M.G.L. Ch. 70B – \$59.3 million.

Authorized But Unissued Debt

The size of the City’s future bond issues will be consistent with the City’s financial management policies regarding its level of debt and debt service. The following table sets forth the amounts and purposes of authorized but unissued general obligation debt of the City as of January 1, 2006.

Authorized But Unissued Debt
As of June 30, 2005 and January 1, 2006

	<u>Statute</u>	<u>Authorized/ Unissued 6/30/05</u>	<u>New Authorizations & Adjustments 7/1/05 to 1/1/06</u>	<u>Authorized/ Unissued 2/1/06 ⁽¹⁾</u>
GENERAL PURPOSE:				
Acquisition of Land: Outdoor Facilities	C44 s7 (25)	\$42,772,935	\$13,150,000	\$55,922,935
Acquisition of Land: Cemetery Improvements	C44 s7 (20)	1,104,138	185,000	1,289,138
Acquisition of Land: Landfill Area	C44 s8 (24)	3,815,893	—	3,815,893
Departmental Equipment	C44 s7 (9)	15,146,376	4,054,250	19,200,626
Rem, Recon, Rehab - Firefighting App	C44 s7 (9A)	10,529	192,500	203,029
Equipment - Fire Boat Acquisition	C44 s7 (13)	4,141,893	—	4,141,893
Computer Hardware	C44 s7 (28)	332,825	505,000	837,825
Computer Software	C44 s7 (29)	704,854	833,250	1,538,104
Reservoir Constr/Enlargement: Water Treatment	C44 s8 (4)	—	750,000	750,000
Water Mains Laying &/Or Re-laying, Lining	C44 s8 (5)	8,870,000	(750,000)	8,120,000
Remodeling & Extraordinary Repairs	C44 s7 (3A)	181,415,722	658,580,940	246,996,662
Engineering & Architectural Services	C44 s7 (22)	889,833	3,463,000	4,352,833
Urban Redevelopment & Renewal	C121B s20	13,533,414	—	13,533,414
Economic Development & Industrial Corporation	C1097 s11 Acts'71	6,746,334	—	6,746,334
SCHOOLHOUSES and SITES:				
Construction of Buildings: Acquisition of Land	C44 s7 (3)	66,053,714	143,196	66,196,910
Capital Improvements: Act of 1973	C642 s7 Act'66 as am.	75,771	—	75,771
Capital Improvements: Act of 1991	C642 s7 Act'66 as am.	2,167,526	—	2,167,526
Capital Improvements: Act of 1996	C642 s7 Act'66 as am.	7,304,790	(30,000)	7,274,790
School Project Loan: Act of 1948	C70B	85,072,903	(95,936)	84,976,967
PUBLIC BUILDINGS: Excluding Schools:				
Capital Improvements: Act of 1973	C642 s7 Act'66 as am.	2,592,005	—	2,592,005
Capital Improvements: Act of 1991	C642 s7 Act'66 as am.	17,700,991	(7,240)	17,693,751
Capital Improvements: Act of 1996	C642 s7 Act'66 as am.	16,626,122	262,240	16,888,362
Construction of Buildings: Acquisition of Land	C44 s7 (3)	17,531,527	2,628,800	20,160,327
Boston City Hospital	C659 Acts of 1986	660,000	—	660,000
PUBLIC WORKS:				
Sidewalk Construction	C44 s7 (6)	9,470,670	—	9,470,670
Traffic Sig., Pub. Ltg. Fire Alarm Comm. Install.	C44 s7 (14)	10,333,638	1,820,000	12,153,638
Bridge Construction	C44 s7 (4)	23,543,712	5,760,000	29,303,712
Public Ways Construction	C44 s7 (5)	46,349,700	18,110,000	64,459,700
TOTAL:		\$584,967,817	\$116,555,000	\$701,522,817
"Within" Debt Limit =		419,802,069	116,425,936	536,228,005
"Outside" Debt Limit =		165,165,749	129,064	165,294,813
TOTAL:		\$584,967,817	\$116,555,000	\$701,522,817

(1) Some numbers may not add due to rounding.

Source: City of Boston Auditing Department and Office of Budget Management.

Debt Statement as of January 1, 2006
General Obligation Debt ⁽¹⁾

<u>Purpose for Which Issued</u>	<u>Principal Outstanding June 30, 2005</u>	<u>Retired in Fiscal 2006 as of January 1, 2006</u>	<u>Principal Outstanding January 1, 2006</u>	<u>Deemed Payable from Related Revenues ⁽²⁾</u>	<u>Net Principal Amount</u>
General Purpose.....	\$385,106,500	\$(16,418,996)	\$368,687,504	\$(11,711,873)	\$356,975,631
MWPAT.....	10,635,546	(581,592)	10,053,954	(2,132,407)	7,921,547
Economic Development.....	—	—	—	—	—
State Urban Development Relocation	24,992,206	(883,620)	24,108,587	—	24,108,587
Schools.....	116,203,746	(5,286,694)	110,917,052	(66,550,231)	44,366,821
Public Buildings.....	220,502,730	(7,969,504)	212,533,226	—	212,533,226
Public Works.....	87,887,849	(6,442,410)	81,445,439	—	81,445,439
Cemeteries.....	996,968	(53,777)	943,191	—	943,191
Totals.....	<u>\$846,325,545</u>	<u>\$(37,636,592)</u>	<u>\$808,688,953</u>	<u>\$(80,394,512)</u>	<u>\$728,294,441</u>

(1) Some numbers may not add due to rounding.

(2) Includes revenues related to or derived from facilities for which the debt was incurred. Such revenues include: (i) the Boston Public Health Commission on account of general obligation debt attributable to projects undertaken on behalf of the former department of Health and Hospitals; (ii) state grants for school construction assistance pursuant to the State's Construction Aid Project; (iii) Fund for Parks and Recreation receipts which are currently collected in the General Fund; and (iv) debt service subsidies on City debt issued to the Massachusetts Water Pollution Abatement Trust.

Source: City of Boston Auditing Department

Debt Service Requirements

The following table sets forth the City's debt service requirements for general obligation debt for each year from June 30, 2001 through 2005. The debt service table shows the gross principal amount of general obligation debt of the City and the revenues related to or derived from facilities on account of which the debt was incurred. Such revenues include (i) from the Boston Public Health Commission on account of certain outstanding general obligation bonds issued for hospital purposes (see "City Indebtedness—Debt of Agencies Related to the City" below), (ii) state grants for school construction as described above, and (iii) rentals received by the City from leased parking facilities as described below.

Debt Service Requirements—Fiscal 2001-2005 ⁽¹⁾

	Fiscal Year Ended June 30, 2001	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2003	Fiscal Year Ended June 30, 2004	Fiscal Year Ended June 30, 2005
Gross Debt Service Requirements					
Bonded Debt:					
Principal.....	\$ 75,594,255	\$ 82,012,626	\$ 86,611,045	\$ 86,490,297	\$ 85,425,487
Interest.....	37,990,468	38,732,580	38,960,072	40,530,338	37,935,112
Total.....	<u>\$113,584,723</u>	<u>\$ 120,745,206</u>	<u>\$ 125,571,117</u>	<u>\$ 127,020,635</u>	<u>\$ 123,360,599</u>
Less Revenue Deemed Available From Related Sources:					
Parking Rentals.....	2,222,017	1,988,112	1,848,419	1,520,418	1,444,229
School Construction Assistance	20,199,100	17,128,745	17,232,498	17,555,199	16,144,882
Boston Public Health Commission Payments ⁽²⁾	5,113,290	4,813,385	4,598,341	4,010,292	2,923,781
MWPAT Loan Subsidy Amounts	625,412	611,139	596,577	581,779	554,594
Fund for Parks & Recreation...	—	—	106,997	269,511	327,310
Cemetery Funds.....	35,147	—	—	—	—
Total Net Debt Service Requirements.....	<u>\$ 85,389,757</u>	<u>\$ 96,203,825</u>	<u>\$ 101,188,285</u>	<u>\$ 103,083,436</u>	<u>\$ 101,965,803</u>

(1) Columns may not add due to rounding.

(2) Includes rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation under its lease of the former Boston City Hospital campus.

Source: City of Boston Auditing Department.

The related revenues shown in the foregoing Debt Statement and table of Debt Service Requirements are not pledged to the payment of specific indebtedness. However, such revenues may substantially reduce the amount of tax or other revenues of the City that must be raised to pay debt service on the related debt.

Certain Debt Ratios

The following table sets forth information as of January 1, 2006 with respect to the approximate ratio of the City's long-term general obligation debt to certain economic factors:

Debt Ratios As of January 1, 2006

	Amount	Per Capita ⁽¹⁾	Ratio to Assessed Property Value ⁽²⁾	Debt Per Capita as a % of Personal Income Per Capita ⁽³⁾
Gross General Obligation Debt	\$808,688,953	\$1,420.83	1.17%	3.37%
Net General Obligation Debt	728,294,441	1,279.58	1.05	3.03

(1) U.S. Census Bureau as of July 2004—Boston's Estimated Population equaled 581,616.

(2) Assessed Property Values equaled \$69.25 billion as of January 1, 2005. State law requires that property be assessed at fair cash value. See "City Revenues—Property Taxes—Revaluation."

(3) U.S. Department of Commerce, Bureau of Economic Analysis, December 2004, Revised Series-Suffolk County's 2003 Per Capita Personal Income = \$42,215.

Source: City of Boston Auditing Department and Boston Redevelopment Authority.

Three-Year Debt Summary

The following table sets forth a three-year summary of the status of the City's outstanding general obligation debt as of June 30th of each respective fiscal year and certain information concerning the City's debt service requirements for such fiscal periods.

Debt Summary, Fiscal 2003 - 2005 (Budgetary Basis) **(\$ in thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Outstanding General Obligation Debt ⁽¹⁾	\$ 885,641	\$904,961	\$846,326
Authorized But Unissued Debt.....	<u>557,443</u>	<u>565,013</u>	<u>584,968</u>
Debt Service.....	\$125,571	\$127,021	\$123,361
Debt Service as a % of Total General Fund Revenues, Transfers and Other Available Funds.....	6.9%	6.7%	6.2%
Debt Service as a % of Total			
Expenditures and Encumbrances.....	6.9%	6.7%	6.3%
Debt Service as a % of Total Net			
Tax Levy.....	12.6%	12.1%	11.2%
Bonds Issued			
General Obligation - New Money.....	\$162,015	\$ 65,000	\$ 75,000
General Obligation - Refunding Bonds.....	<u>120,225</u>	<u>78,200</u>	<u>52,775</u>
Total Bonds Issued.....	<u>\$282,240</u>	<u>\$143,200</u>	<u>\$127,775</u>

(1) In anticipation of its issuance of bonds, the City issued \$62,000,000 City of Boston School Project Bond Anticipation Notes, Series A, in February 2002 and \$34,000,000 City of Boston School Project Bond Anticipation Notes, Series B, in February 2003, which are not included in these amounts.

Source: City of Boston Auditing Department.

Short-Term Borrowings

Although the City is authorized to borrow for operating purposes through the issuance of short-term notes in anticipation of revenue receipts, it has not done so in several years. In addition, the City is authorized to issue short-term debt obligations in anticipation of the issuance of long-term bonds.

In February 2002, the City issued its \$62,000,000 City of Boston Bond Anticipation Notes, 2002 Series A, and in February 2003, the City issued its \$34,000,000 City of Boston Bond Anticipation Notes, 2003 Series B, both to fund a portion of the costs incurred by the City for the construction of two new middle schools and one new elementary school. Both of these Note issues will mature in February 2006. See "City Revenues—State Aid—State School Building Assistance."

Special Obligation Debt

In addition to general obligation indebtedness, the Bond Procedure Act of 1983 and various other special acts authorize the City to incur indebtedness, which is secured by and payable solely from certain revenues of the City which are pledged for the payment of such indebtedness or which are subject to annual appropriation by the City for such purpose. The only special obligation indebtedness of the City outstanding as of June 30, 2003 was \$112.5 million aggregate principal amount of the City's Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the "Convention Center Bonds"), and \$120.4 million Special Obligation Refunding Bonds, Boston City Hospital Issue (the "2002 BCH Refunding Bonds") which were issued to refund bonds that first refinanced the project in 1993 (the "1993 BCH Bonds").

The 1993 BCH Bonds were issued in 1993 to refund bonds originally issued by the City in 1990 to finance a major construction and renovation program for the City's acute care hospital then known as Boston City Hospital ("BCH"). The 1993 BCH Bonds were secured in part by a mortgage on the BCH campus, which was insured by the United States of America acting by and through the Federal Housing Administration ("FHA"), and were payable from amounts paid on a mortgage note issued by the City to the trustee for the owners of the 1993 BCH Bonds.

At the date of issue of the 1993 BCH Bonds, BCH was owned by the City and under the control of the City's Department of Health and Hospitals. However, on July 1, 1996, the operations of BCH and Boston University Medical Center Hospital ("BUMCH") were consolidated into Boston Medical Center, which is owned and operated by the Boston Medical Center Corporation ("BMCC"), a Massachusetts non-profit corporation. Simultaneously with the consolidation of BCH and BUMCH, all other public health operations of the City's Department of Health and Hospitals were transferred to the Boston Public Health Commission. In addition, title to the BCH campus was transferred to the Commission and the Commission became the mortgagor on the FHA insured mortgage and assumed the City's mortgage note securing the 1993 BCH Bonds. At the same time, the BCH campus was leased to BMCC for an initial term of 50 years and BMCC agreed to pay rent to the Commission for so long as the FHA insured mortgage note was outstanding in an amount, among other sums, equal to the amounts payable by the Commission on the FHA insured mortgage note securing the 1993 BCH Bonds.

Upon issuance of the 2002 BCH Refunding Bonds, the 1993 BCH Bonds were defeased and the FHA insured mortgage on the BCH campus discharged and the Commission's mortgage note cancelled. In consideration of the discharge of the mortgage and cancellation of the note, upon delivery of the 2002 BCH Refunding Bonds the Commission issued a new promissory note to the City (the "2002 Note") which is payable as to principal and interest in amounts and on dates sufficient, with other moneys held or to be received under the trust agreement securing the 2002 BCH Refunding Bonds (the "2002 Trust Indenture"), to pay the principal of, and interest on, the 2002 BCH Refunding Bonds as the same becomes due. The 2002 Note is not secured by a mortgage on or other interest in the BCH campus. The 2002 Note is a special obligation of the Commission secured by an assignment and pledge of rents payable by BMCC to the Commission under the lease of the BCH campus and all other amounts held under a Note Payment Trust Agreement among the City, the Commission, BMCC and the Trustee for the owners of the 2002 BCH Refunding Bonds, including, upon any failure of BMCC to pay all or any part of such rent, the proceeds of certain assistance grants payable by the City to BMCC for so long as the 2002 Note is outstanding. The payment of assistance grants to BMCC is subject to annual appropriation by the City and the payment of rent by BMCC is contingent upon the appropriation and payment of such assistance grants. The rent payments and the assistance grants are each at least equal, in amount and terms of payments, to the principal and interest payable on the 2002 BCH Refunding Bonds.

The 2002 BCH Refunding Bonds are special obligations of the City payable from, and secured solely by a pledge and assignment of the Note Payment Trust Agreement, the 2002 Note and all payments of principal and interest payable thereon and all moneys and securities and investment income thereon in all funds established under the 2002 Trust Indenture. In the 2002 Trust Indenture, the City has also covenanted and agreed, subject to appropriation, to meet any deficiency in the amounts held thereunder for the payment of the 2002 BCH Refunding Bonds. The 2002 BCH Refunding Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the 2002 BCH Refunding Bonds. The 2002 BCH Refunding Bonds are not a debt or other obligation of the Commission or BMCC.

The Convention Center Bonds were issued by the City in April, 2002 pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), to permanently finance certain costs incurred by the City in connection with the development of the Boston Convention and Exhibition Center (the "BCEC Project"), a 1.6 million square foot convention and exhibition facility on a 60-acre site in South Boston. The BCEC Project was a joint development of the City, acting through the Boston Redevelopment Authority (the "BRA"), and the Commonwealth, acting through the Massachusetts Convention Center Authority (the "MCCA"). Under the Convention Center Act, the BRA was responsible for the acquisition of the site for the BCEC Project, which has been conveyed to the MCCA, for the demolition of the existing structures on the site and remediation of environmental hazards thereon and for the preparation of the site for construction of the BCEC Project, which was completed in the spring of 2004. The MCCA is responsible for the operation of the facility.

As provided in the Convention Center Act, the City was obligated to reimburse the BRA for the first \$157.8 million of costs incurred by the BRA to acquire and prepare the BCEC Project site for construction. Site acquisition and preparation costs incurred by the BRA in excess of \$157.8 million are to be either assumed by the Commonwealth or, under certain circumstances, shared equally by the City and the Commonwealth. The Commonwealth or the MCCA is solely responsible for all costs of design, construction and operation of the BCEC Project. To date the City has reimbursed the BRA for \$174.1 million of site costs which were temporarily funded through the issuance by the City of its \$130,000,000 Convention Center Loan, Act of 1997, Bond Anticipation Notes, Series A, and \$27,800,000 Convention Center Loan, Act of 1997, Bond Anticipation Notes, Series B (collectively, the "Convention Center

Notes”), which matured on May 1, 2002. Proceeds of the Convention Center Bonds were applied to retire approximately \$117 million of the Convention Center Notes at maturity. The remaining principal of the Convention Center Notes, all interest due thereon, and the City’s share of site costs in excess of \$157.8 million, has been funded from special revenues accumulated by the City since enactment of the Convention Center Act, including the proceeds from the sale of hackney (taxi) medallions authorized by the Convention Center Act.

The Convention Center Bonds were issued under and are secured by a Trust Agreement dated as of April 15, 2002 between the City and a corporate trustee (the “Convention Center Trust Agreement”). The Convention Center Bonds and any additional bonds and refunding bonds which may be hereafter issued and outstanding under the Convention Center Trust Agreement are special obligations of the City payable from, and secured solely by a pledge of, certain “Pledged Receipts” identified in the Convention Center Trust Agreement and all moneys, securities and credit facilities in all funds and accounts established thereunder. The Pledged Receipts pledged by the Convention Center Trust Agreement as security for the Convention Center Bonds include all amounts received by the City from the 4% local option room occupancy excise imposed in Boston and from a portion of the surcharge imposed by the Commonwealth on vehicular rental transaction contracts in Boston. See “City Revenues—Excise Revenues.” The Convention Center Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the Convention Center Bonds.

The City does not expect that its revenue base that was historically available to fund annual operating expenditures will be adversely affected over the long-term by the development of the BCEC Project and the issuance of the Convention Center Bonds. The Convention Center Act and the Convention Center Trust Agreement authorize the City to annually transfer to the City’s General Fund all room occupancy excise receipts and other Pledged Receipts that are not required for the payment of maturing interest on and principal of the Convention Center Bonds. The City anticipates that the future room occupancy excise receipts that are attributable to rooms in hotels, motels, and other lodging establishments that were first opened for business after July 1, 1997 (a measuring date provided in the Convention Center Act), together with the other Pledged Receipts held under the Convention Center Trust Agreement, will be sufficient to pay the future debt service on the Convention Center Bonds and to fund remaining estimated costs of the BCEC Project that are required by the Convention Center Act to be paid by the City. Accordingly, the City anticipates that excise tax receipts attributable to rooms in hotels, motels, and other lodging establishments that were opened for business before July 1, 1997 will be available for transfer to the General Fund.

Debt of Agencies Related to the City

In addition to general obligation and special obligation indebtedness of the City, the City and certain agencies related to the City are authorized to issue debt which is solely an obligation of the agency or which, although issued by the City, are payable solely from revenues derived from projects financed by such debt. Except as described below, such obligations do not constitute a debt of the City.

Boston Water and Sewer Commission

The Boston Water and Sewer Commission (the “Commission”) is an independent body politic and corporate and a political subdivision of the Commonwealth created in July 1977. The Commission, among its other powers, is authorized to operate and maintain the water and sewer systems of the City, construct improvements to the systems, collect user charges for its services, and finance its activities and its borrowing through its revenues. The City is not obligated on debt issued by the Commission. The Commission’s user charges, as required by statute, are designed to produce revenues to the Commission sufficient to pay all of its current operating expenses. These user charges are anticipated to increase moderately. The City’s property tax base is not used to subsidize water and sewer services. Water and sewer charges outstanding from certain of the Commission’s prior fiscal years have been committed to the City for collection. The City uses its lien and foreclosure powers to collect those overdue water and sewer charges for those years on the Commission’s behalf.

Economic Development and Industrial Corporation of Boston

The Economic Development and Industrial Corporation of Boston (“EDIC”) is a body politic and corporate and an instrumentality of the Commonwealth with a board of five members, also appointed as the members of the Boston Redevelopment Authority (“BRA”). EDIC has a variety of powers to assist industrial development projects in the City including the power to issue special obligation revenue bonds to finance economic development projects in the City, which are solely the obligation of EDIC or the owner or lessee of the financed project. The City is also authorized to appropriate or borrow monies in aid of

EDIC development projects within certain urban renewal debt limitations. The City has issued approximately \$19.7 million in general obligation debt for EDIC purposes, of which approximately \$4.5 million was outstanding as of January 1, 2006.

Boston Redevelopment Authority

The BRA is a public body politic and corporate constituting the City's redevelopment authority. It acts as the City's planning board and exercises certain powers of the state Department of Housing and Community Development. The BRA board consists of four members appointed by the Mayor, subject to confirmation by the City Council, and one appointed by the state Department of Housing and Community Development. The staff includes architects, economists, engineers, lawyers and urban planners, as well as management personnel and administrative support. The BRA provides the planning support for major construction, development and redevelopment activity in the City. Although the BRA is authorized to issue revenue bonds and notes which would not constitute indebtedness of the City, BRA projects have traditionally been financed through a combination of federal and state grants, the proceeds of general obligation bonds issued by the City and revenues from the lease or sale of land.

Boston Public Health Commission

The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June 1996 as the successor to the City's Department of Health and Hospitals. See "The City—Principal Government Services—Public Health". The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. In addition to its other powers, the Commission is authorized by its enabling act, with the approval of the City Council and the Mayor, to borrow money for any of its corporate purposes from the City or from the Massachusetts Health and Educational Facilities Authority. Debt of the Commission is not a debt or other obligation of the City. Other than the 2002 Note described below, no debt of the Commission is currently outstanding.

Pursuant to agreements between the City, the Commission, BMCC and a trustee for the benefit of the registered owners of the 2002 BCH Refunding Bonds, the Commission has agreed to apply rents received from BMCC to the payment of a promissory note (the "2002 Note") issued by the Commission to the City and assigned by the City as security for the 2002 BCH Refunding Bonds. Payments made by the Commission on the 2002 Note are applied by the City to pay the principal of and interest on the City's 2002 BCH Refunding Bonds. See "City Indebtedness-Special Obligation Debt."

The Commission is also obligated to reimburse the City for debt service paid on all outstanding general obligation bonds of the City issued for public health and hospital purposes. Such bonds were outstanding on June 30, 2004 in the aggregate principal amount of \$12.1 million. The Commission has required, and can be expected to continue to require, substantial financial support from the City to maintain its public health mission and programs, including satisfaction of its obligations described above.

Other Agencies and Corporations

Two other public bodies are empowered, either by themselves or through the City, to issue special obligation revenue bonds. The BHA is responsible for the construction, financing and operation of residential housing for low-income persons. While the City provides certain municipal services to BHA developments, and capital expenditures for City infrastructure related to those developments, the City is not directly or indirectly liable for operating or debt service expenses of the BHA. The City, acting by and through the Boston Industrial Development Financing Authority, is authorized to issue revenue bonds to finance the construction of industrial, commercial and pollution-control facilities. The City has also traditionally provided financial assistance to a number of nonprofit corporations organized to provide and conduct civic and charitable functions for residents and visitors to the City and to stimulate the economic development of the City.

Major Contractual Obligations

In addition to its debt obligations, the City has substantial contractual obligations. Included in this category are the City's obligation for pension benefit payments to its contributory retirement system for City employees which is included in the annual tax levy (see "Retirement Systems"); agreements for the provision of sanitation, solid waste collection and disposal services (see "The City—Principal Government Services—Public Works"); and agreements with BMCC for the provision of operating assistance and capital grants. (see "City Indebtedness—Special Obligation Debt" and "Debt of Agencies Related to the

City—Boston Public Health Commission” above). The City has also executed several equipment lease agreements in order to finance the acquisition of departmental equipment. As of January 1, 2006 the amount outstanding under the lease agreements equaled \$15.6 million. Lease payments are subject to annual appropriation, and are not included in the City’s debt limit.

Capital Planning and Borrowing Program

Capital Planning Process

The capital planning process is organized to coincide with the annual budget cycle. It begins when City departments submit capital requests, and concludes when the City publishes an updated version of its five-year capital plan. Capital appropriations are requested of the City Council each year for the cost of projects included in the updated capital plan. This process allows for a continuing reassessment of capital needs and projections. On [April 13, 2005](#) the Mayor submitted his fiscal [2006](#) budget to the City Council, which included approximately [\\$116.6](#) million in new authorizations to support the fiscal [2006](#) capital plan. All authorizations were approved by the City Council in June [2005](#).

The City awards construction contracts and incurs capital outlay costs based upon appropriations to be funded from bond proceeds and grant receipts. In circumstances where project expenditures occur prior to the receipt of bond proceeds or grant reimbursements, the City pays such costs from available funds.

Capital Funding Plan

The City funds its capital plan primarily through the issuance of general obligation bonds. The size of the City’s future bond issues will be consistent with the City’s financial management policies regarding its level of debt and debt service. The timing and size of the capital plan will be actively managed within these constraints.

Current Capital Investment Plans

The City’s fiscal [2006](#) capital plan released in April [2005](#) proposes new long-term investments over the next 5-7 years as well as several studies to lay the groundwork for future growth. In all, [\\$1.25](#) billion from City and non-City sources are proposed to be spent on capital projects. These expenditures will be used for improvements to schools, libraries, parks and recreation, roads and bridges. In view of the proven economic and social benefits of consistent, long-range capital planning, the City remains committed to moving forward with its capital program.

The fiscal [2006](#) capital plan includes projects to improve the physical condition of the City’s schools. In addition to ongoing roof replacements and heating system upgrades, the City completed construction and opened three new schools in calendar 2003. [Finally, the 2006 capital plan includes an addition to and renovation of Burke High School which also incorporates the construction of a new neighborhood branch library.](#)

The maintenance of the City’s roadways and sidewalks is a significant part of the capital plan. [In 2005, Public Works Department launched the Citywalks program a three year effort to repair sidewalks and roads across the City. The City’s regular program will be bolstered by an additional \\$12 million in funding. In fiscal 2006, 32 miles of roads will be reconstructed or resurfaced and 950,000 square feet of sidewalks will be repaired. Approximately 700 new street lights are scheduled to be installed to improve visibility and public safety.](#)

Boston’s public libraries have also benefited from the capital planning process. [The designs for a comprehensive branch renovation and for the construction of two new buildings to replace existing branch libraries are underway. Construction is expected to begin in 2006 and 2007.](#)

The historic McKim Building at the central library continues to undergo major restorations.

Since its inception, the capital plan has comprehensively examined the capital needs of the City and has emphasized long-term planning and financial management. This planning process has enabled the City to alter the pattern of decades of previous under investment and to respond to emerging program goals of its departments.

For a description of the City’s expenditures in support of the BCEC see “City Indebtedness – Special Obligation Debt” above.

RETIREMENT SYSTEMS

The City's employees are not participants in the federal social security system. The City participates in a contributory defined benefit retirement system that is administered by the State-Boston Retirement System ("SBRs"). The SBRs provides pension benefits to retired City employees under a state contributory retirement statute, and is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex-officio*; two individuals elected by members of the system; an individual chosen by the Mayor; and an individual chosen by the other four members or appointed by the Mayor if the other four members do not agree on a selection within thirty days of a vacancy. All retirement allowances are paid from a fund supported by employee, City and state contributions. Employee contributions in the form of a mandatory deduction from regular compensation constitute an annuity fund from which the annuity portion of the retirement allowance is paid.

The City is committed to funding based upon a schedule approved by the SBRs and the state actuary, which includes paying the current year's estimated present value of benefits earned during the year ("normal cost") and an annual contribution toward reducing the unfunded liability to zero by the year 2023. This schedule is calculated in accordance with the entry age actuarial cost method. The schedule is subject to update and approval at least every three years by the state Public Employee Retirement Administration Commission ("PERAC"), a state agency established to oversee all 106 Massachusetts public retirement systems. The SBRs most recently received approval for a funding schedule for fiscal 2006, 2007, and 2008. The latest approved schedule targets full funding of the system five years prior to the legally required 2028. The annual appropriation, based on the funding schedule, is a legal obligation of the City that must be included as part of the tax rate certification by the Commonwealth.

Beginning January 1, 2000, the Board adopted an asset valuation method that gradually incorporates over time annual investment gains over and losses under the actuarial investment return assumption of 8%. The actuarial value of assets is used in determining the funding schedule, thereby avoiding the direct and immediate impact of dramatic upswings and downswings inherent in the equity markets. On January 1, 1999, and on previous actuarial reporting dates, assets were reported at market value. During those years, the actuarial value and the market value were considered to be the same.

A cost of living adjustment is set each year at the CPI or an amount up to, but not greater than, 3% on the first \$12,000 of a retiree's annual payment. Cost of living adjustments are considered by the Board on an annual basis. As part of the annual review process, the Board considers the fiscal conditions of the City and whether the granting of a COLA would substantially impair the City's funding schedule. COLA's were approved from fiscal 1999 through fiscal 2005. The Commonwealth, meanwhile, has incorporated in its pension funding schedule sufficient funds to fulfill its obligation for local cost of living adjustments it had awarded prior to fiscal 1998. The funding schedule incorporated a 3% cost of living adjustment into its annual appropriation calculation.

Schedule of Funding Progress (\$ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
January 1, 2004	\$3,384,814	\$5,420,842	\$2,036,028	62.4%	\$1,067,492	190.7%
January 1, 2003	3,204,893	5,121,319	1,916,426	62.6	1,099,779	174.3
January 1, 2002	3,376,000	4,861,000	1,485,000	69.5	1,057,000	140.5
January 1, 2001	3,212,000	4,257,000	1,045,000	75.5	990,000	105.6

Source: City of Boston Retirement Board

For long-term investment performance, the SBRs recorded a five-year (ending in 2004) average annualized return of 3.09% and an average annualized return from January 1, 1985 through December 31, 2004 of 10.30%. In 2004 the rate of return for the SBRs was 12.01% and the composite rate of return for all 106 Massachusetts public pension funds was 13.53%.

In addition to SBRs, the Boston Retirement System, the predecessor system, is funded by the City. This predecessor system has as its members only those active and retired employees whose employment commenced prior to 1946 and who have not elected coverage under the SBRs program. This system is funded on a "pay-as-you-go" basis. In addition to SBRs and its predecessor system, the City also provides noncontributory retirement benefits to certain employees whose employment predates SBRs and its predecessor system or who are veterans who meet certain state law requirements. The City is currently providing such benefits to approximately 280 pensioners

Amounts expended or estimated to be expended by the City for pension and annuities contributions to SBRS and its predecessor system in the most recent fiscal periods (net of state reimbursements for teacher retirement costs) are as set forth below.

City of Boston Pensions and Annuities Costs
(Budgetary Accounting Basis)
(\$ in millions)

<u>Fiscal Year Ending June 30</u>	<u>SBRS Contributory System</u>	<u>Predecessor/ Noncontributory System</u>	<u>Teachers Pension Reimbursement</u>	<u>Net Pension Cost</u>
<u>2006 Budgeted.....</u>	<u>\$186.3</u>	<u>\$4.7</u>	<u>\$(76.5)</u>	<u>\$114.5</u>
2005.....	146.6	4.9	(76.5)	75.0
2004.....	137.0	4.9	(61.4)	80.5
2003.....	134.4	4.9	(53.7)	85.6
2002.....	129.7	6.0	(45.3)	90.4
2001.....	127.5	6.3	(41.4)	92.4

Source: City of Boston Office of Budget Management